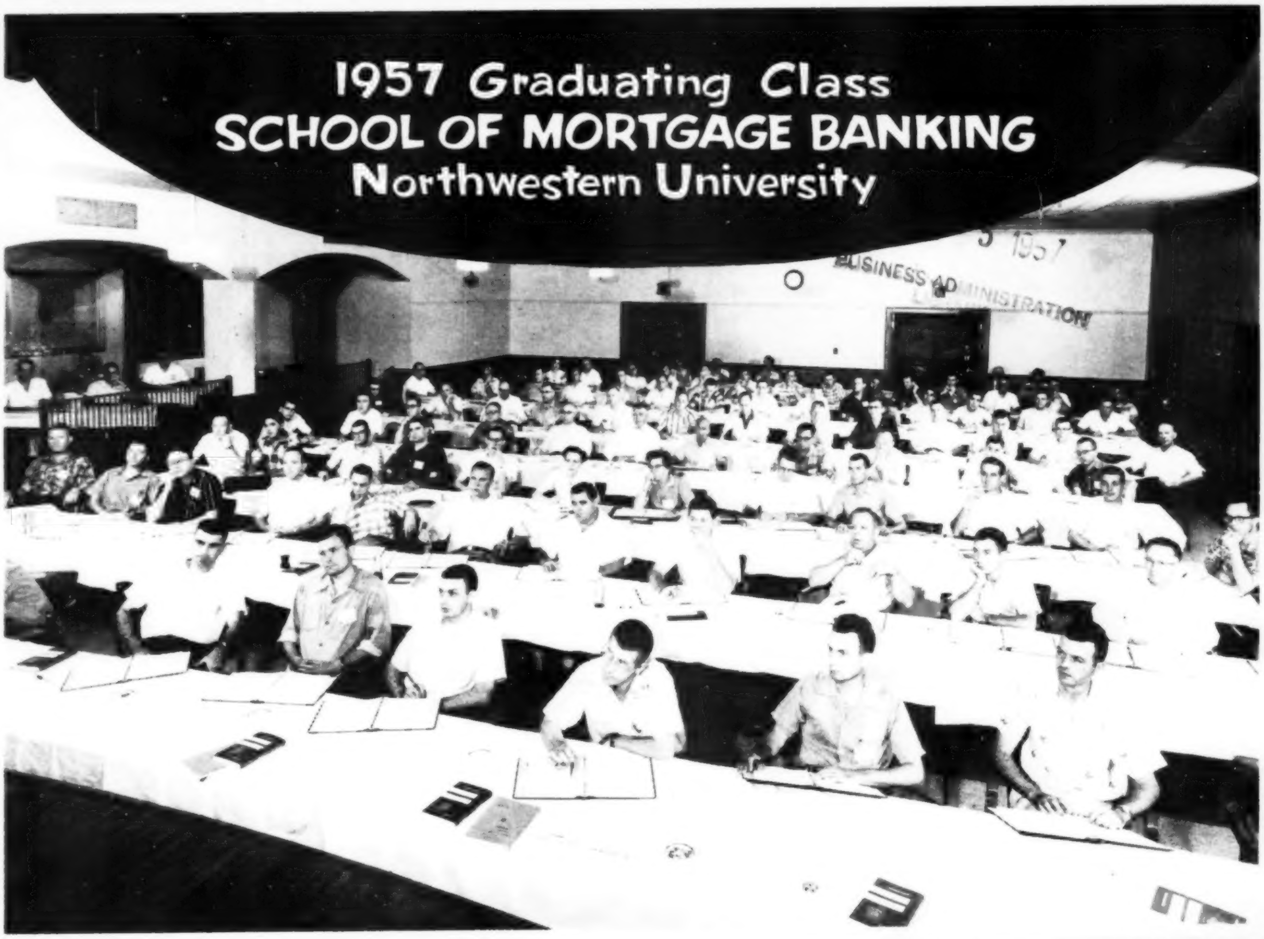
AUGUST 1957

The Mortgage Banker



MORTGAGE BANKERS ASSOCIATION OF AMERICA · MBA · ORGANIZED 1914

in this issue ————————

HOTTEST ECONOMIC PROBLEM OF THE MOMENT: INFLATION ★ HOW SOME OF EXPERTS VIEW THE DANGERS WE FACE

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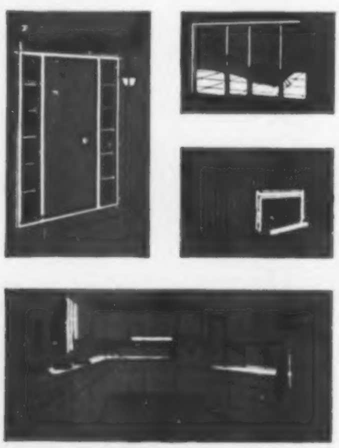
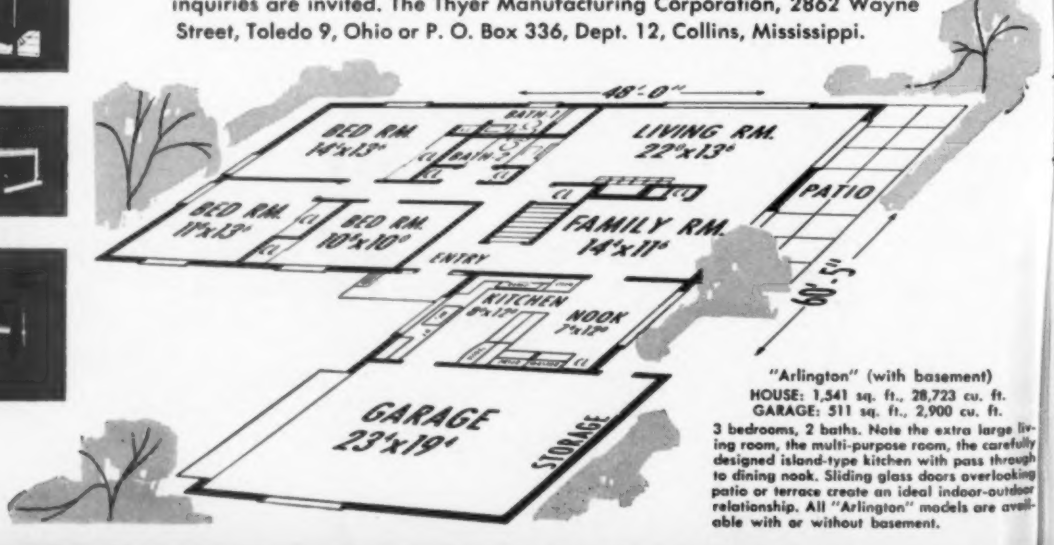
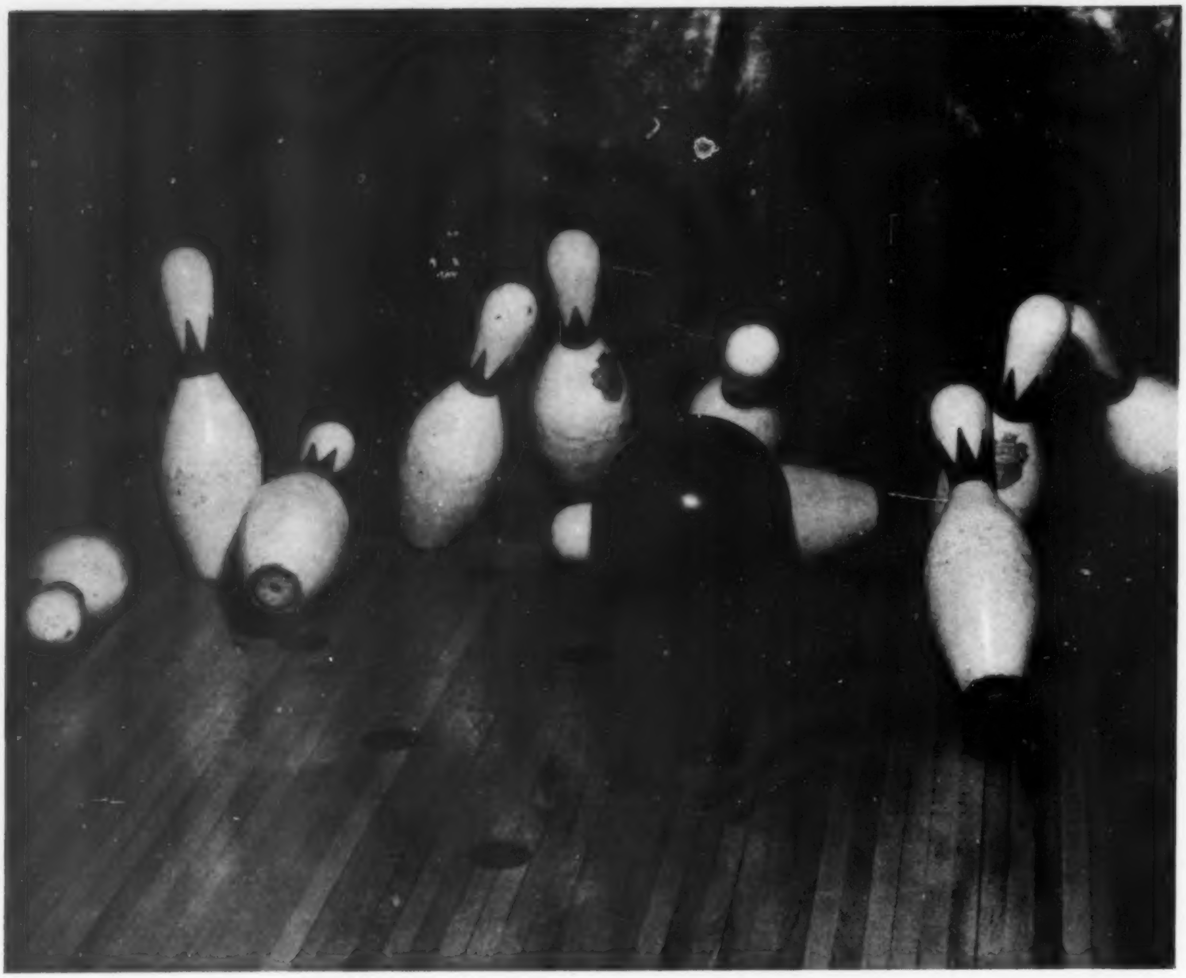




"Arlington" (with basement)
HOUSE: 1,541 sq. ft., 28,723 cu. ft.
GARAGE: 511 sq. ft., 2,900 cu. ft.

3 bedrooms, 2 baths. Note the extra large living room, the multi-purpose room, the carefully designed island-type kitchen with pass through to dining nook. Sliding glass doors overlooking patio or terrace create an ideal indoor-outdoor relationship. All "Arlington" models are available with or without basement.



MBA Calendar

July 28-August 3, School of Mortgage Banking, Course I, Stanford University, Stanford, California

August 4-10, School of Mortgage Banking, Course II, Stanford University, Stanford, California

September 23-26, Electronic and Tabulating Equipment Servicing Clinic, Hotel Commodore, New York

November 4-7, 44th Annual Convention, Statler Hilton Hotel, Dallas

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›› AVAILABLE: These MBA Certificate of Merit award works are available without charge to members of the Association. Indicate those desired and copies will be sent.

Project Construction Financing by George Robert Monroe, Secretary, Monarch Investment Co., Wichita.

The Mortgage Banker of Yesterday and Today by G. J. Hoffmann, Jr., Treasurer, Stockton, Whatley, Davin & Company, Jacksonville, Florida.

The Motel Story by Jerry B. Frey, Jr., The Brown-Frey Mortgage Company, Dallas.

Simplified Mortgage Service Accounting Procedures by John K. Benoit, Equitable Life Insurance Company of Iowa.

Subdivision Development and Financing by J. Wray Murray, Commonwealth Life Insurance Co., Louisville.

Direct Placement of Industrial Securities by Mortgage Bankers by Walter Mahlstedt, Teachers Insurance and Annuity Association of America.

Mortgage Loan Analysis of Retail Properties by Robert P. Russell, Realty Mortgage Co., Inc., Houston.

Auditing the Loan Correspondent by D. R. Olson, Equitable Life Insurance Company of Iowa, Des Moines.

The Mortgage Banker

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Volume 17 **AUGUST, 1957** **Number 11**

Contents

FRIGIDAIRE SHEER LOOK

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...for happier purchasers, "stay-put" home owners!

Where is the first place Mrs. Prospective Home Buyer heads when visiting a model home? Chances are, she beelines for the kitchen. Why? Because she has her heart set on having the kitchen of her dreams and because the kitchen is usually the one room that most influences her decision to buy. This, more than any other, is "her" room and it must include more working space, storage space and living space *plus* years-ahead convenience features—if she is to be sold and stay sold.

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Highways and Byways of Business

This "New Inflation"—What Is It Like, How Much Will We Have and How Bad Will It Be?

As the second half of 1957 got under way, few could be found in the mortgage origination side of the industry to declare that there had been substantial improvement in their business. Some developments which usually are a forerunner to improvement had been taking place on a limited scale but whatever they presaged for the future was still in the speculation stage.

The big thing at mid-year seemed to be the "new inflation" which is the subject of most of the material in this issue. How can we explain the why and wherefore of this new spurt which the experts call a new type of inflation. It's not easy; and as *Time* observed:

"To U. S. economists the biggest puzzle today is the 'new inflation,' so called because it flies in the face of all their classical theories about the sources of inflation. Traditionally, inflation is caused by excessive demand for goods in short supply. But many consumer prices today are rising in the face of softened demand and below-capacity production in such key industries as steel, autos, appliances. To describe this new phenomenon, economists have coined a new phrase: 'cost-push' inflation. Some go on to contend that price boosts, such as the recent steel price rise, are caused primarily by the push of labor's wage demands. But is labor really to blame?

"Most economists are well aware that the problem of inflation is far too complex to be laid at the door of any one group. Dozens of factors contribute, such as high Government spending, support prices for farmers and other subsidized groups, and a faster turnover of loan funds to offset the Federal Reserve Bank's tight-money policy. And in a new study, the Bureau of Labor Statistics points out that prices have actually led wages upward during most of the postwar period."

The wage-price business was attracting the most attention, but no one has a firm and positive explanation. *Time* concludes:

"To many economists, alarm over automatic wage increases and administered prices and the cost-push inflation they cause seems exaggerated. They point to the absence of factors that produce a runaway inflation, notably a shortage of goods and an excess of money. The soft spots in the economy are expected to prevent major wage increases from spreading through the entire economy, as in the past, just as the ample supply of goods is expected to check overall price boosts. Outgoing Treasury Secretary George Humphrey told the Byrd committee probing Administration fiscal policies that the Administration's tight-money policies have begun to pinch off the new inflation and that increases in the cost of living will soon stop. Wholesale prices have leveled off, he said, and this will soon show up in stabilized retail prices.

"Even the new inflation might have been checked, said Humphrey, if the Federal Reserve Board had earlier tightened credit more drastically, thus pinched off plant expansion and full employment. But he also agreed with the growing body of economists who think that the cost of doing this might be greater than the price of bearing inflation for a while, since the new inflation is a natural result of the economy's continuing prosperity. They feel that severe cures would hurt even more than the malady itself. Says Harvard Economist Sum-

ner Slichter, who predicts a controlled inflation of 2 per cent to 3 per cent annually for the next decade: 'In this imperfect world we are often compelled to choose between evils, and if the choice is between enough unemployment to halt the rise in labor costs, direct controls of wages and prices, and creeping inflation, let us by all means have the creeping inflation. It is the least of the three evils.' "

Steady Price Level for Existing Houses

As it does twice every year, NAREB in recent weeks has had certain areas of the real estate market under scrutiny. Existing houses and the market for same, farm land, apartment construction and retail business property were some of the areas examined.

Prices of modern existing houses are expected to hold their present level throughout most of the nation in the coming months, although the current sales volume is lower than a year ago.

Predictions of constant prices for existing homes built since 1940 came from 62 per cent of the communities surveyed. Rising prices were seen by 17 per cent, and declining ones, by 21 per cent. There was no pronounced regional variation in the outlook.

» MONEY PROBLEMS: The market position of the modern existing house, described as "strongly competitive," was attributed to the double factors of (1) land scarcity and rising construction costs that have pushed the prices of new homes up and (2) the tight mortgage money market which has cut the volume of new home construction.

Prospects for the continuation of the present price levels on existing houses built since 1940 are strengthened by the forecast of the respondents with respect to new houses. Assuming a continuation of current tight mortgage market conditions, 59 per cent of the communities said that they expect higher prices for new homes in the months ahead, and 53 per cent looked for a lower volume of new home construction in the future.

Sales of new homes this spring

were lower in most areas for all price categories compared with a year ago, while prices were higher in nearly half of the country.

Reports that sales of existing houses built since 1940 are fewer than a year ago were received from more than half of the participating real estate boards.

"The shortage of offerings of good quality used houses is limiting what would be a strong market in many places," the summary commented.

>> PRICE FACTOR: A reduced sales volume is most frequently found with respect to homes priced at $20,000 and over. Sixty-three per cent of the country made this report, with only 9 per cent indicating that sales are up in this category. In the $12,000-$20,000 area, sales were said to be less numerous in 52 per cent of the areas surveyed and higher in only 14 per cent. For dwellings under $12,000, the sales volume followed a pattern similar to that of the middle-priced category.

The slower sales market for used houses was attributed in part to the "faltering pace" of new home construction by the summary.

"Thousands of purchases of new homes are by families who are already owner-occupants. Often the house relinquished by the new buyer is a first link in a chain-like series of

transactions and, in consequence, a decline in residential construction has a far-reaching effect on the availability of good used houses and on consumer opportunity for purchase within the existing supply. The broad result is to discourage mobility and to retard the up-grading of the national housing inventory."

Observing that the effects of the tight money situation on the residential market has long been known, the report declared that these secondary results "are just becoming apparent and are far more fundamental."

Prices of single-family used homes, built since 1940, are the same or higher than they were a year ago in more than three-fifths of the areas surveyed.

Nationally, for both homes under $12,000 and those in $20,000 and over range, 19 per cent of the reporters indicated higher prices, and 45 per cent found them the same as a year ago; in the $12,000 to $20,000 bracket, higher prices were found to prevail in 21 per cent of the areas surveyed, and the same prices in 46 per cent.

>> PRICE MARK-UP: Regionally, the West led in the percentage of communities reporting higher prices for houses in all three categories, while the South led in the percentage of communities reporting lower prices in the highest and lowest priced groups.

For houses built in 1940 or earlier, the survey disclosed a price outlook that varies substantially by the size of the city and the area of the country in which the older units are located. For metropolitan communities of the West, 71 per cent of the reports indicated an expectation that the present price levels should continue or go higher, while only 29 per cent foresaw a price drop. Conversely, 61 per cent of the large cities of the South predicted lower prices in the future.

At the present time, these older existing houses are sharing with more modern used houses a market strengthened by a shortage of good housing units.

Sales of housing of this type have dropped—60 per cent of the survey reported fewer sales than a year ago, compared to 43 per cent making a similar report in 1956. Prices, however, have dropped in fewer places than sales volume. This spring, 33 per cent of the country said that prices are the same, and 57 per cent said they were lower than a year ago; in the spring of 1956, 29 per cent found prices the same, and 61 per cent lower than in 1955.

Ten Year Low in New Apartment Building

The low rate of rental construction is also clearly reflected in what NAREB's researchers found. With new apartment construction at its lowest point since 1947, the nation's rental housing facilities are strained close to the limit to meet the demand for quality units.

Despite the low vacancy rate in the entire residential rental market, rents have not risen appreciably. The survey found that rents have remained about the same in 59 per cent of the country compared with a year ago, have dropped in 13 per cent, and risen in 28 per cent. According to the Bureau of Labor Statistics, rents throughout the nation rose only 2.1 per cent from April, 1956, to April, 1957.

An important factor in this relative stability of rents, the survey report suggested, has been the wide and varied residential sales market open to consumers.

"A high occupancy level, characteristic of rental markets in most cities since World War II, continues and is a dominant factor in the real estate economy," declares the report. "An equally important current influence is the rising cost of construction, operation, and local taxation which has discouraged the flow of capital to residential rental investment and thus reduced apartment construction to the lowest level since 1947."

» **FEW BUILT:** According to the Bureau of Labor Statistics, 82,000 apartment units were built in 1956, and 72,000 in 1947.

Vacancies in habitable multi-family residential units were reported to be 2 per cent or less in 54 per cent of the communities represented in the survey, from 3 to 5 per cent in 29 per cent, and from 6 to 9 per cent in 12 per cent. Vacancies of 10 per cent or more were found to exist in only 5 per cent of the country.

"As in the autumn and spring surveys of 1956," the report observes, "the quality, size, and location of the apartment are vital factors. A shortage of units for rent in well-maintained buildings is combined, in many cities, with a surplus of small or undersirable units."

Comments from the reporters included the following:

» "Rentals very tight except for basement apartments and other second-rate units."

» "Majority of apartment vacancies are in older converted dwellings in older residential districts."

» "Only multi-family vacancies are found in converted units."

Adequate single-family homes for rent represent a minor share of the rental supply. For four-fifths (82 per cent) of the reporting areas, these vacancies were said to be 2 per cent or less. Three to 5 per cent vacancies were reported in 14 per cent of the communities, 6 to 9 per cent in 3 per cent, and 10 per cent or more in only 1 per cent of the areas.

Retail Property and Office Space Steady

The outlook for retail business property and office space is decidedly better. Sales prices and rents of retail business property and the demand for office space are expected to continue at current levels in a majority of cities of the United States through the second half of 1957, NAREB says.

A small increase in vacancies in retail business properties offered for rent was shown, but the survey revealed that 57 per cent of the communities reporting quoted such vacancies as at "2 per cent or less" and for 33 per cent they were said to be only "3 to 5 per cent."

Continuance of the present plateau of retail business property values was predicted for properties in prime locations by 63 per cent of the respondents and for those in secondary locations by 61 per cent. Where a price change is anticipated, a rise is more frequently expected if the retail site is of prime quality. Conversely, the survey showed, for retail buildings in secondary locations, a market shift is more likely to be downward.

Vacancies were reported more frequent in older, poorly maintained retail buildings, particularly those lacking adequate parking space. In some metropolitan communities, the development of major suburban shopping centers has had a generally adverse effect on business in uptown retail neighborhoods and strip commercial developments, as well, and vacancies have resulted.

On the average, retail business property rents were shown to be broadly similar to those prevalent a year ago. Seventy-three per cent of the real estate boards reporting classified such rents as the same as last year, while 18 per cent said they were higher. The importance of factors of quality and convenience was reflected by the survey. While rents for space in modern shopping centers and prime downtown locations are strong, for less desirable buildings, particularly in poorer sections, they are lower.

Prices closely resembling those of a year ago were reported for center city retail business space in most areas. Transfer levels are similar also to those of a year ago.

For merchandising establishments in prime locations, prices were said to be the same in 66 per cent of the areas and those in secondary locations the same in 63 per cent. Where changes in price have occurred, an upward trend was more frequent if the building site was a choice one, while a decline was more prevalent for those of lesser quality. For center city retail space in prime locations, prices were said to be higher in 24 per cent of the communities, but for properties in secondary locations they were described as lower in 25 per cent.

The survey showed that the sustained high level of department store and other retail business activity, together with rising construction costs, has increased the investment quality of prime location retail structure in most cities. Firm or higher prices for these downtown properties are combined with fewer transfers in a significant number of places. In general, however, the volume of sales is reported to be the same (68 per cent) as it was a year ago.

» **IN SUBURBIA:** Retail business properties in outlying areas are reported to be in strong demand nationwide, and where sales are being negotiated they are at prices the same or higher than a year ago.

Prices of retail business structures in prime locations in outlying areas are reported to be the same as last year by 50 per cent of the respondents and higher by 44 per cent. For secondary locations, they are quoted as the same by 59 per cent and higher by 20 per cent.

Because there has been a sustained demand for office space which is expected to continue through the second half of this year, the outlook for most areas is for sales prices for such structures to continue at current levels. The emphasis on quality was reported to be a vital force in the market for office space, and where price movement is forecast it is generally for higher levels if the building has a prime location, but for lower levels where the neighborhood is of lesser quality.

For 71 per cent of the market areas, office rents were reported to be unchanged from a year ago. For 22 per cent, they were said to be higher.

While vacancies in office buildings have increased slightly over levels of 1956, they are still low in most areas, the survey revealed. For over half of the cities, they were listed as "2 per cent or less," and in 35 per cent

they were estimated at "3 to 5 per cent."

Prices of center city office buildings in prime locations were said to be the same as a year ago by 68 per cent of the respondents and higher by 24 per cent. For office structures in secondary locations, unchanged price levels were reported for 68 per cent and higher for 14 per cent.

Professional buildings and other well-located office space of modern design in outlying areas are bringing higher prices in a market more active than a year ago in a number of communities. Fifty-nine per cent reported prices the same as in 1956, while 32 per cent listed them as higher.

Demand Is Strong for Good Farm Land

Then there is the question of farm land—and land generally. Now at a record national price level, the value of land now in farms will remain constant or climb to even greater heights in the rest of this year.

"Competition for land appropriate for residential subdivision, industrial development, or commercial farm expansion has sharpened during the past year," the report found. "Strong demand and diminishing supply are influencing land prices nationwide and changing values of farmland in a manner unrelated to crop or produce prices."

Competition for land from these three sources—only one of which is agricultural use—"points up the almost hopeless task of studying farmland prices as a single definable sector of the current land market," the survey summary added. "They illustrate the competition that is characteristic of most areas—a competition rooted in widely differing potential uses."

Future prices of full-time farms are expected to be the same during the second half of 1957 as those now prevalent by 54 per cent of the real estate boards taking part in the survey, and higher by 33 per cent. With respect to part-time farms, rising prices are anticipated by 36 per cent of the respondents, and a continuation of present prices by 56 per cent.

This forecast, the report points out, rests on the current strong demand and the expected continuation of the vigorous economy that has created the strong competition for land.

>> $95 AN ACRE: According to the latest report from the Department of Agriculture, the total market value of farm real estate is $109.5 billion or an average value of $94.52 per acre.

While not establishing dollar values, the survey corroborated the trend found by the Department. Fifty-three per cent of the Realtor respondents said the prices of full-time farms were similar to those prevailing a year ago, but 31 per cent described them as higher. Similarly, with respect to part-time farms, prices were found to be about the same as those that prevailed a year ago by half of the respondents, while 40 per cent found them higher.

The survey found that in many areas, a strong demand exists for all farms, but relatively few are for sale.

"Higher prices often were combined with a low volume of transfers because of the few farms being offered in the market," the report observed. "The trend in number of sales of full-time farms was classified as the same as a year ago in 47 per cent of the reports, and lower in 38 per cent. For part-time farms, it was listed as the same by 50 per cent, and lower by 21 per cent."

FHA Rental Units Are Well Occupied

A preliminary summary of a survey of FHA rental units, as of March 31, indicates that only 2.7 per cent of the total units available for occupancy were vacant. This was the lowest rate reported in connection with an FHA occupancy survey since these studies were initiated in 1950. The 1957 analysis covered nearly 500,000 dwelling units in rental projects currently insured by FHA and located in all parts of the country, Alaska, Hawaii, and Puerto Rico.

The comparable vacancy rate at the end of March, 1956 was 3.2 per cent. For earlier years the rates were

as follows: 1955, 4.4 per cent; 1954, 3.5 per cent; 1953, 2.8 per cent—the lowest previously reported rate.

The 2.7 per cent vacancy figure covers only those projects on which FHA insurance was in force at the time of the survey. In addition, there were some 34,000 units with either titles or mortgages held by FHA. When these units are included in the total, the 1957 vacancy rate is 3.6 per cent compared with 4.1 per cent in 1956.

This decline in the vacancy situation was general throughout the country. Only in one area—the midwestern states, which reported a 2 per cent vacancy rate—was the 1957 rate higher than that reported for 1956. Despite this increase, however, this area had the second lowest vacancy ratio reported for any of the six FHA administrative zones.

The northeastern area, which includes the large concentration of rental units in metropolitan New York, reported the lowest vacancy rate of 0.7 per cent as compared with 1.1 per cent a year ago.

The highest rate of 5.6 per cent occurred in the southwest. This rate is nearly a third lower than was reported for this area in March 1956. For the other areas, all of which reported decreases, the most notable change was in the far western states where the ratio declined from 3.1 per cent in March 1956 to 2.2 per cent this year.

Says Public Housing Is Just About Dead

"Public housing is so sick some experts think it is virtually dead," says House & Home.

Even such an ardent public housing advocate as Charles Abrams, author, housing authority, and chairman of the New York State Commission Against Discrimination now describes this depression-born program as "slowly withering away."

Listing some of the symptoms of the illnesses that now beset public housing in many localities, so that some cities are not applying for federal help to build more units, and in other cases are not building units already approved, the magazine says:

"Of the 35,000 units authorized by Congress for fiscal 1956-57, only 1,810 were under contract by mid-June, and not a single one was under construction. Most of the 1,810 units are projects in Puerto Rico that missed approval a year earlier.

"The Public Housing Administration has some 90,200 units in its backlog of construction—units for which the federal government has signed a contract agreeing to subsidize rents after construction. The backlog covers public housing authorizations that stretch as far back as 1953.

"Even allowing for a spurt which might produce contracts for 5,000 new units in the just-ended fiscal year (1956-57), there is enough backlog of authorizations on hand now to last 25 years, at public housing's present pace."

The reasons for "the decline and fall of government-subsidized housing," and their relative importance, vary from city to city, but can be summarized mainly as follows:

"*Reason No. 1:* Now that public housing is 'integrated,' it is becoming Negro housing in more and more cities. For example, public housing in Chicago is now 85 per cent Negro occupied. In consequence, white neighborhoods are blocking plans to build new projects—unless they are built in Negro 'ghettos.' No public housing units were built or started in Philadelphia last year for this reason. In Chicago, no new sites have been picked for two years.

"There's no question about it—our whole problem in getting a project going today is the integration, open-occupancy issue," says Director Russell C. Taylor, of the Columbus (Ohio) Metropolitan Housing Authority.

The lesson of all this turmoil, says

the magazine, seems to be: "most U. S. white citizens are so unready to accept Negroes as neighbors that they are exercising their sovereignty to prevent it, if possible. The fact that Negro exclusion is clothed in hypocritical evasions labeled zoning, land use or real estate values, does not alter the central fact that it is the real motivating force."

"Reason No. 2: The institutional poor house look of high-rise projects. Most public housers themselves struggling for ways to snap what Catherine Bauer calls the 'dreary deadlock' of public housing, agree there should be no more big projects, much more scattering of public housing into small clusters.

"Reason No. 3: What PHA euphemistically describes as 'management problems.' In some cities, this merely means that local housing authorities have all the work they can handle with existing projects. In New York, it means crime, vandalism and slipshod maintenance so threatening that his aides are urging Mayor Robert Wagner to double the housing authority's private police force.

"Reason No. 4: Public housing, as Elizabeth Wood argues, 'is getting a bad reputation; it is being stigmatized as a bad place to live by normal low-income families of good standards.' Miss Wood, former executive secretary of the Chicago Housing Authority, came up with this finding after a 15-month study of a project in New York City. She blames the fact that more and more 'problem families' are being concentrated in public housing. 'It takes only a very few, very anti-social people to make a floor or a building or a project unsatisfactory to parents who are concerned about their children.' she says.

"Reason No. 5: Rising costs. The law now limits public housing to $1,750 per room including land. The ceiling has not been raised since 1949. Meanwhile, based on the Boeckh index for high-rise apartments, construction costs have gone up 35 per cent."

FHA Group to Look Into Income Needs

FHA has named a special 15-member industry advisory committee to re-examine its income requirements. FHA has not made any readjustment in its housing-portion-of-family-income standards to allow for the virtual doubling of family income rates and house prices that has occurred since pre-World War II.

Members of the committee include P. I. Prentice, editor and publisher of *House & Home;* George S. Goodyear, president, National Association of Home Builders; John F. Austin, Jr., president of MBA; George C. Johnson, president, Dime Savings Bank, of Brooklyn; Robert P. Gerholz, former president of both NAHB and the National Association of Real Estate Boards; Sylvia Porter, nationally syndicated financial columnist; William A. Clarke, Philadelphia, former MBA president and Federal Reserve housing credit consultant; and Dr. Leo Grebler, of the National Bureau of Economic Research, recently on the Staff of the President's Council of Economic Advisors.

"FHA brass," says *House & Home,* "will ask the mortgage credit committee to delve into the basic questions of whether FHA requirements—set up in the 30's and recently updated, but not fundamentally altered—are in tune with today's changed economy. They will ponder items like how much income of working wives should be counted in computing family income for mortgage eligibility, how much family income in the higher brackets should be counted.

"There are some indications top FHA men are in a mood to give income requirements a drastic overhaul."

Inflation Threat Is Grave and Must Be Faced Now

By **DR. EDWIN G. NOURSE**

AS AN economist I am constantly struck by the confusion that exists as to what inflation really is, how it comes about, and what we can or should do to curb it. Inflation is not merely a synonym for deficit spending or for any high level of government spending or for a mere rise, prolonged or rapid, in general prices. All these things may be ingredients in that INFLATION spelled in capital letters that people are getting more and more concerned about today. We need to get them all in perspective to each other if we are going to understand where we stand now and what it portends for the future.

This we can best do by going back for a quick look at the road by which we got here. If we are now reaping a harvest of inflation, what were its seeds and how were they sown? Are we still sowing the seeds of a yet more dangerous inflation next year and thereafter till we reap the whirlwind of a business depression? To get a running start on these questions, we need to look back more than a quarter-century.

For ten years, 1929 to 1939, our country wallowed in the trough of the Great Depression, while we sought ineffectually to reflate prices and incomes to a level where business would again be prosperous and employment opportunities abundant. Then, suddenly, World War II broke down many of our traditional economic inhibitions and invoked the dual stimulus of fear and patriotism to expand activity and raise prices. In five short years, we multiplied the national debt from $26 billion to $278 billion, built up an enormous backlog of deferred wants and liquid savings, and facilitated a great release of human fecundity. Prices and wages were in those years pretty well held down by controls. But the seeds of inflation (in the sense of a great rise in prices and income) had been widely sown.

For 12 hectic years since V-J Day we have followed the easy and delightful path of an almost uninterrupted business boom. During this fabulously prosperous period we have exploited the productivity potential released by the forces of the war and its aftermath in Korea. We have also exploited the price-raising potential built up in that enlarged national debt, conplemented by corporate and consumer boldness in making heavy credit commitments and by the ability and willingness of banks and other financial agencies to handle the load of administration, accounting, and risk that such financing involved.

INFLATION fires are burning again, this time brighter than ever—so contend many today. The country has been warned about the dangers of inflation for 20 years. It has become a household word—everyone has a fixed and definite opinion about what should be done. And everyone today is getting an excellent opportunity to do some serious thinking about inflation because, so say the experts and those in positions to speak with authority, we have moved into a period where the dangers are greater than ever. What is it all about? To better understand the threat the country faces is the principal purpose of this issue of THE MORTGAGE BANKER. *It is devoted primarily to recording the opinions of a number of authorities whose views count for something. To lead off, Dr. Nourse recounts some recent history of the problem and says inflation has to be faced now—and do we have the courage to do what has to be done? He is the former chairman of the President's Council of Economic Advisers and made his views known at the recent National Citizens Committee to Curb Inflation.*

A glance back at the early years of this postwar period will show how we the people shortsightedly sowed the seeds of inflation even while the presence of such a danger was being clearly pointed out. President Truman continuously stressed the threat of inflation in his Economic Reports to the Congress and consistently recommended measures to curb it. In January 1947 he said: "Expert and lay opinion is in agreement on the rule of sound public finance that calls for a surplus in government revenues over expenditures while employment is high and the total of income is large."

In July 1947, reiterating the same point, The Economic Report of the President said:

"Tax reduction now would add to inflationary pressures and would also prevent the debt reduction which should be carried out in prosperous times to strengthen the nation's financial position against future contingencies. . . . A policy of budget surplus and debt redemption is imperative under present conditions to provide that safeguard [against inflationary possibilities which still exist]."

In January 1948, the President reported a cash surplus for calendar 1947 of "5.6 billion dollars, which was used primarily to reduce bank holdings of Federal debt. This was a counter-inflationary factor during a year of mounting inflation. . . . Taxes at present are providing revenues substantially larger than expenditures. It is important to maintain this favorable balance as long as the inflationary trend continues."

In spite of these warnings, businessmen and consumers, complaining bitterly of the burden of "war taxes," moved Congress to pass legislation in the spring of 1948 that reduced revenues by an estimated $5.3 billion. On this action, the President, in his next Economic Report, commented:

"The deflationary influence of recent government cash surpluses will thus be replaced by the inflationary influence of additional expenditures on the part of consumers whose tax burdens are reduced. . . . Even in the midst of present prosperity, the average American sees that the value of his accumulated savings has declined, and that many of his neighbors, living on pensions or fixed salaries, are actually worse off than they were a year ago. . . . The failure to control inflation effectively in the past makes it increasingly urgent that we adopt vigorous measures to guide us safely from the uneven postwar boom to an era of sustained and stable prosperity."

Mr. Truman logically recommended at this time restoration of certain repealed taxes and proposed several kinds of selective controls but, with equal logic, let this tax recommendation lapse when business turned downward in the spring of 1949.

The essential point of these early episodes in sowing the seeds of inflation is that consumers and business spenders were defeating their own best interests. Consumers already had full employment, war savings, and credit expansion to give them purchasing power in the market. The tax savings they got simply enabled them to offer more dollars for a supply of goods that could not be increased at an equal rate.

Similarly the tax savings of business spenders enabled them to bid more vigorously for equipment, materials, and labor. In the perceptive phrase of the late Senator Taft, we "were trying to do too much too fast." The public refused to let fiscal restraint curb inflation. Likewise, they refused to let monetary restraint be used consistently and effectively. They demanded removal of the restraints on instalment and mortgage credit in Regulation W and Regulation X and kept the interest rate "pegged" to 2½ per cent until 1951. Naturally, the seeds of inflation sprouted fast.

The present Administration has done a good deal toward curbing the inflation whose seeds were sown in the war and early postwar period. It has tenaciously resisted tax reduction that would have been inflationary and has pursued a tight money policy that is counter-inflationary. At the same time, President Eisenhower has repeatedly admitted the limitation of fiscal and monetary policy in dealing with the total problem of inflation, and has urged the country not to expect Government to do the whole job. In various Economic Reports and vigorously in his latest State of the Union Message he has pointed to the responsibility of business management and union labor to abstain from sowing the seeds of inflation and expecting Government to offset the pressures thus created.

We need to face the fact that one reason that our people go on sowing the seeds of inflation is that they are under the impression that they are sowing goodly plants rather than dangerous weeds. With the same set of historical facts before the eyes of everyone, there has been and still is sharp division of opinion, both expert and popular, as to where we really

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stand today, and what are the foreseeable consequences for the future.

On the one hand, those who derive, from the events of the last three decades or so, an acceptance and approval of such inflation as a way of life for enterprise capitalism—it's been dandy for 12 years, let's keep it up. They argue that such a way of economic life is effective, pleasant, and safe. This view has the dignified sponsorship of Professors Slichter, Hansen and Harris at Harvard University and not a few professional economists elsewhere. It is both preached and practiced by most of the labor unions and practiced by a great part of business management while prominent executives and most reputable business associations preach against it. One farm organization openly supports it, while the other three majors disavow it even though for more political means of getting in on its gains.

Over against the complacent inflationists we find those who, contemplating not only the pleasant history of the United States in recent years but also the record of other economies and other times, see even this kind of inflation as an insidious danger, something to be feared and combatted, not condoned and certainly not invited. It is superfluous to mention here the Secretary and Under Secretary of the Treasury, the Chairman and Board of Governors of the Federal Reserve System, Senators and Representatives, business leaders, and professional economists, both in Academia and in bank and corporation posts.

I think I can state the position of this latter group fairly and correctly as to its essentials even though there would, of course, be plenty of differences or shadings of emphasis on details. Being realistic, they would recognize that the developments of World War II made it not only undesirable that we should go back to the price levels of 1939 but also quite impossible in view of all the adjustments already made to a much higher price and income level. A considerable period of internal market adjustment was what was needed to digest technological and financial changes which had taken place and to work out wage-price-profit relationships that would give workable conditions for full employment, adequate investment, prompt market absorption, and standards of living rising in proportion to greatly improved and still improving productivity. In this process, some wages which had not been the beneficiaries of war pressure would need to be raised in order to bring about a sound wage structure and widely distributed purchasing power. Some prices would need to rise but others would fall in response to lowered cost and/or relatively weaker demand. But the price level should not be pushed up by constant injections of new money. The theoretical ideal would be a moderate downward trend of prices by which the benefits of rising productivity would be disseminated to all consumers. The practical working compromise is a virtually stable price level, with flexibility of individual prices to reflect particular situations.

Those who condone or advocate inflation as a way of life find even a stabilized price level too austere a doctrine for men as we find them. They argue that wage negotiators must bring home the bacon for their boys after every trip to the bargaining table, that price makers must charge all that the traffic will bear, that banks must stretch credit so that all products can be bought at these prices, and that if this process produces a profit squeeze, or a lack of consumer buying power, or an inadequate savings base for the credit structure, the Federal Government shall step in with a spending program that will prevent any slowing down for the making of adjustments to more sustainable relations. They look also to the Federal Reserve to furnish ammunition to this Battle of the Price Bulge through a consistent "soft money" policy reminiscent of the Greenbackism of the 1870's and the "free silver" drive of the 1890's.

> ***"Some contend that inflation can in fact be curbed simply and swiftly by the Federal Government by merely 'turning off the money faucet or reversing the money pump.' In a certain restricted sense this claim is true. If the government dropped half a million or even 200,000 civilians and military and cut \$8 or \$10 billion from procurement and subsidies, the purchasing power thus withdrawn from the market would doubtless preclude further price rises. This would be equally true if the Federal Reserve sharply curtailed the money supply through credit channels. As a purely mechanical proposition, prices and wages would have to fall or volume of business would have to shrink. One can judge for himself in which direction our economic system has the most 'give.' Personally, I suggest that, with the built-in inflationary features we now have, we could curb inflation at the cost of a depression."***

The proponents of this doctrine argue that these perpetual shots in the arm are just what the doctor orders for an enterprise economy, and they dismiss quite cavalierly the possibility that the inflation drug habit will ever master and destroy us. Thus the whole controversy has come to center on the new catch-phrase "creeping inflation" or "mild inflation." It raises a two-pronged issue: (a) Will inflation continue to creep or get up on its hind legs and run away with us, and (b) Is the economic impact of even a moderate but steady inflation in fact mild?

As to the first of these questions, I am not content to say that history has shown that inflation always does get out of hand, nor, on the other hand, content to say that we now have control devices that make it sure that such an inherent danger can be met and overcome. These controls

have not been proved in practice and we do not have convincing evidence that we will have the alertness and fortitude to use them to the limit of their rated powers.

As to the second question, apologists for, or proponents of, "mild" inflation seem agreed that a 2 per cent rise in the general price level annually is acceptable. It is obvious, however, that a 2 per cent increase compounded year after year soon builds up a surprisingly large total impact. As Dr. Winfield Riefler, Assistant to the Chairman of the Federal Reserve Board has put it: "Continued inflation, even if it could be controlled to a rate of 2 per cent per annum, would by no means be mild. It would be equal to an erosion of the purchasing power of the dollar by about one-half in each generation." Furthermore, this erosion of purchasing power has a very uneven impact on different parts of the economy. Those whose goods or services fall in a scarcity area or whose organization gives them special bargaining power may entirely escape any burden and indeed reap positive gains, while the economically weak bear a crushing load. Inflation not only "grinds the faces" of fixed income and "sticky" income classes, but also impairs the financial expectations of institutional endowments and pension funds, and discourages systematic capital formation.

The pitfalls of the creeping inflation doctrine are proclaimed by the President when he points out that rising payrolls and procurement costs make it impossible to keep government spendings down to government revenues. It is proclaimed by top-business executives when they tell stockholders and the public that the upward creep of costs disrupts their orderly growth and its financing. It is proclaimed by labor leaders, even at the most strategic spots in industry following the most aggressive enhancement of wages for their group, when they lament that nominal gains "are paid in wooden nickels."

To get down to the real crux of the inflation issue, to the field where the seeds of economically disruptive inflation are most widely sown, and to assess soundly the requirements for curbing it, we must scrutinize the mechanisms and the policies of wage setting and price administration in the market. We should stop passing the buck to the President, Secretary of the Treasury, the Congress and the Federal Reserve System for most, if not all, of the responsibility for sowing the seeds of inflation through fiscal and monetary policy. It is much nearer to the truth to say that the real source of inflation in postwar United States has lain in the market place—in the institutions and practices of labor union bargaining and corporation price administration. Fiscal policy has sometimes aggravated or failed to curb wage-price inflation; and monetary policy, though it has been more consistently and astutely utilized to "contain" the aggressive force of market inflation, is, by its nature and the present philosophy of the Federal Reserve authorities, incapable of really offsetting institutionalized wage-price inflation.

Approaching the problem of inflation from this angle carries us into areas in which both labor and management are very sensitive. Hence I want to make four fundamental propositions very clear and explicit at the start:

» I am myself pro-labor, and I believe that every one of my professional brethren who seeks maximum wealth for the nation must likewise be pro-labor since maximum material well-being for all who work with hand or brain is, by definition, the major end that economics seeks to promote.

» I am pro-business—little business in areas where it can show efficiency to compete in a fair field of no special favors, and for big business in that large part of industry and trade where it can produce the best goods at the lowest costs.

» I take it as axiomatic that attractive profits are an essential ingredient of a workable price system.

» I subscribe fully to the declaration of policy in the Employment Act of 1946, which accepts for the Federal Government a positive role of responsibility "to coordinate and utilize all its plans, functions, and resources [within a structure of] free competitive enterprise . . . to promote maximum employment, production, and purchasing power." I should add, however, that the other clause in that declaration of policy—"consistent with its needs and obligations and other essential considerations of national policy"—in my judgment, reaffirms the Federal Government's primary obligation to see that its actions contribute to the soundness of the dollar or, in other words, do not lead to disruptive inflation.

We live in an age of Big Business, Big Labor, and Big Government, and

> *"The present Administration has done a good deal toward curbing the inflation whose seeds were sown in the war and early postwar period. It has tenaciously resisted tax reduction that would have been inflationary and has pursued a tight money policy that is counter-inflationary. At the same time, President Eisenhower has repeatedly admitted the limitation of fiscal and monetary policy in dealing with the total problem of inflation, and has urged the country not to expect Government to do the whole job . . . he has pointed to the responsibility of business management and union labor to abstain from sowing the seeds of inflation and expecting Government to offset the pressures thus created. We need to face the fact that one reason that our people go on sowing the seeds of inflation is that they are under the impression that they are sowing goodly plants rather than dangerous weeds."*

we had better learn to make its three big wheels mesh together as a producing machine of maximum efficiency instead of becoming an "engine of inflation." That is what it has become in recent years or is in grave danger of becoming.

Let us trace the simple steps in that process. Since 1945 we have had 11 "rounds" of wage increases and a continuous upward march of prices not so clearly marked off into annual steps. Both management and labor found themselves in a sellers' market, with money demand tending to outrun physical supply. If management raised prices, labor argued that this gave the companies ability to pay higher wages. If labor boosted wages, management argued that it must recoup higher costs by raising prices.

Management installed two very tricky gadgets on the engine of inflation. One was the two-phase escalator clause in wage contracts, by which wage rates would rise automatically in accordance with a theoretical factor of productivity increase or with a rise in the cost-of-living index. The other was expressed in the principle that prices should be high enough to largely defray the cost of plant betterment and expansion without much recourse to the securities market.

Unionism, not to be outdone as a designer of inflation devices, got court recognition of the theory that labor is exempt from anti-trust law, and developed the technique of forcing maximum wage and fringe gains through the strongest union at the most strategic point in business, *i.e.*, strongest demand and highest profit margin and then using these gains as a lever throughout the labor market.

Nor has the pattern of cost-price leap-frogging been limited to the industrial and commercial area. The farmer was something of a pioneer in the field of escalation gadgets with his formula of "parity" prices—that is, if prices of things the farmer has to buy go up, the government must support farm prices at a proportionately higher level. This in turn raises the costs and thus the prices of the things the farmer has to buy and raises the "parity" base on which farm prices are to be supported.

Mention of the government as a party to the process of inflation reminds us that the farm market is by no means the only place at which the government is cat's paw in this game. It stockpiles metals to support their prices. It makes grants or loans on artificially easy terms to construction projects of various sorts to keep up volume when building trade wages and contractors' margins tend to price themselves out of the market. Government as purchaser and employer in both civilian and military fields must pay competitive rates, which, in turn, are enhanced by the marginal strength of its own competition. Uncle Sam has raised pay from the letter carrier to the Cabinet officer, and paid higher and higher prices for everything from jet planes to the paper and printing it uses so extravagantly.

Now Mr. Eisenhower has pointed out very clearly how this easy-going cost-price system results in a budget of $71.8 billion to pay for established government operations, for apparently necessary security programs, and for some, but not all, of the welfare measures the people demand in view of the richness of our productive resources. The built-in inflationary mechanism I have described will not be converted to a stabilizing prosperity mechanism by simply cutting $2 billion or $6 billion out of the current budget, whether it be done with a meat-ax or a scalpel or by a series of bookkeeping tricks. Nor will it be done merely by a continuance of the firm but flexible monetary administration of the Federal Reserve System.

> *"To get down to the real crux of the inflation issue, to the field where the seeds of economically disruptive inflation are most widely sown, and to assess soundly the requirements for curbing it, we must scrutinize the mechanisms and the policies of wage setting and price administration in the market. We should stop passing the buck to the President, Secretary of the Treasury, the Congress and the Federal Reserve System for most, if not all, of the responsibility for sowing the seeds of inflation through fiscal and monetary policy. It is much nearer to the truth to say that the real source of inflation in postwar United States has lain in the market place—in the institutions and practices of labor union bargaining and corporation price administration. Fiscal policy has sometimes aggravated or failed to curb wage-price inflation; and monetary policy, though it has been more consistently and astutely utilized to 'contain' the aggressive force of market inflation, is, by its nature and the present philosophy of the Federal Reserve authorities, incapable of really offsetting institutionalized wage-price inflation."*

President Truman stated these fundamental truths in his first Economic Report, and reiterated them in almost every subsequent Report. He said:

"Removal of emergency price and wage controls has restored the main responsibility for prices and wages to business, labor, farmers, and consumers. The Government can point out dangers seen from the perspective of the whole economy, but the correctives must be largely applied by others. Business should reduce prices wherever possible in order to bring about the necessary increase in consumer purchasing power to bolster their markets. . . . Labor, on its part, must recognize that high volume at low costs and low prices requires high productivity and the absence of restrictions on production. For its own

(Continued page 31, column 1)

Inflation Is The Most S

THE most serious situation confronting this country is the question of inflation and I do not believe that the public generally realizes the dangerous implications that confront us.

We lost, in the period from 1940 to 1952, 48 cents of the purchasing power of the dollar. Never before in the history of our country has such a loss occurred. One year we lost nine cents, another year we lost eight, another year six. Then in 1953 the dollar was stabilized. It was stabilized in 1953, 1954 and 1955 and until the latter part of 1956; then it began to lose value again.

To my way of thinking, this second inflation may be as dangerous or more dangerous than the first because the justification of the conditions that brought about the first inflation was, first, heavy deficit spending and the war—the two wars, rather—and that's not a condition that exists today.

I think inflation, unless it becomes uncontrolled, or if it results in a substantial further loss of the dollar, would be as dangerous to our economic life as an H-bomb would be to our physical life—and I am generally alarmed.

I am Chairman of the Senate Finance Committee and that group is conducting an investigation in the monetary system in all its phases. It's a very broad investigation, it will take a lot of time, it will investigate the public debt, private debts, the rates of interest and all matters that relate to our financial and monetary condition with special emphasis on the question of this new inflation.

From April of 1956 to April of 1957 there was a two-cent loss in the value of the dollar which is 4 per cent of the 50-cent dollar. That gives us a valued dollar as of April of 49.8 cents which is less than one-half its value—and the dollar is still going down.

The cost of living is steadily rising. It has gone up five index points in the last year, approximately 5 per cent, and there are no conditions that I can see that would indicate that this inflation which has now started will be stopped. This matter was discussed at a lengthy examination of Secretary Humphrey. There are certain factors in inflation that all of us recognize. One is the increase in wages above the productivity of wages, and that, of course, has occurred and is occurring, because there are automatic increases in wages now which are given on a basis of the cost of living but not on a basis of the productivity of those particular wage earners.

And that, of course, is inflation.

We have another factor now, that of the enormous increase in interest rates which has just begun. The last offering by the Treasury of $4 billion of bonds was not taken by the public in the fashion that has been customary and it was regarded as not a success.

Now, those bonds were issued on a basis of 3⅝ per cent which is the largest interest rate paid since 1933. But that interest rate was not sufficient to sell those bonds.

There are very large quantities of bonds that become due in August and through the fall amounting to 32-odd billions of dollars. The interest we are now paying on the Federal debt is $7 billion and that's 10 per cent of the total tax revenue of this country. Mr. Humphrey, in answer to my question, said that should we be compelled to pay 3⅝ per cent then our interest charge would be $10 billion.* So we have a potential increase in the cost of government of something like $3 billion assuming that the interest rate of 3⅝ per cent will not be exceeded.

*We will. The new financing is in the 3⅝-4 per cent area.—Editor.

We undoubtedly have what may be regarded as a great surface prosperity. You can take the statistics, as Mr. Humphrey did, and show that this country is enjoying the greatest prosperity that it has ever known. No doubt about that. But, in my judgment, it's not sound or solid prosperity. When I came to the Senate 25 years ago we owed then $16 billion in Federal debt. Now we owe $275 billion. In addition, we have contingent liabilities of things that our Government has guaranteed, such as the housing loans, to an extent of $250 billion more. I do not contend that all of that $250 billion is likely to become an actual liability which would have to be paid out of the Treasury. I asked Mr. Humphrey to give me an itemized statement of all the contingent liabilities and his judgment as to which of these contingent liabilities would likely be an actual liability in the years to come.

In addition to the Federal debt we have a debt of the cities and counties and states of $50 billion. That has doubled in four years. In addition, we have a debt of corporations and individuals of five hundred and more billion. Thus we have a total of some $800 billion in public and private debt.

The actual facts are that a total of all debts in the past four years has increased from $600 billion to $800 billion, an increase of one-third in that period of four years. That combined with the inflationary influences indicates to me that we are not on as solid a basis of prosperity as these statistics would give the impression that we are.

I have thought that this investigation is justified by the fact that there has not been a complete investigation of our monetary system since the Aldrich inquiry in 1908. I do not assert that the Finance Committee will be able to undertake as compre-

st Serious U. S. Problem

Says SEN. HARRY F. BYRD

INFLATION really serious inflation, and all the disastrous consequences which it will have for our system, have long been recognized by that most eloquent spokesman in Congress for the need for more economy—Senator Byrd of Virginia. He has not only recognized the dangers on the road we have been traveling but has been a consistent advocate for doing the things in national government which would contribute greatly to removing the conditions which breed inflation. He, like so many other thinking people now, believes that we have at last come face to face with a really vital decision: the question of whether we can stand further depreciation of our currency, whether we can stand up to the continued increase in federal spending, the crushing tax load and—most important—its de-emphasis on initiative and enterprise. Also speaking before the National Citizens Committee, he outlined his estimate of the situation.

hensive an investigation as was done by the Aldrich Commission, because that took four years. But I do say that on the Finance Committee there are very able Senators. We have eight Democrats and seven Republicans and they are deeply interested in finding the causes of these conditions that confront us.

Why is it that we have this inflation? Why is it we have this enormous debt? Why is it necessary for the Federal Government to spend as much as we are now spending, \$73.6 billion, if you include the road appropriation. This was put in a trust fund, but for comparative purposes should be included in the budget.

Another thing that's very disturbing to our committee is, (and this was confirmed by Mr. Humphrey) what would happen if we would have a slight recession?

If we would go back to the national income of 1955, we would have a deficit of \$12 billion because of the fact that our tax system is keyed so largely to the income tax that any recession in business would occasion that loss. I submit that any nation is in a precarious position when even a slight recession, such as going back to 1955, would bring about this enormous Federal deficit assuming, of course, that we pass the appropriations as requested by the President. It's a very serious condition.

I am not being pessimistic, I have no desire to be or no desire to be an alarmist; but as I see it from a financial standpoint we have no reserves of any consequence. We can't tax any more. We are taxing the people to the very limit.

I wouldn't know how we could raise any substantial amount of money without going into diminishing returns. We still have Korean War taxes. We've borrowed all that we can borrow legally. I am one of those who intends to oppose any increase in the debt limitation. That debt limitation is now \$278 billion, \$3 billion of which expired July 1. I am going to oppose, with such influence as I have, any increase in the debt limit, because \$275 billion is too much for this country to owe.

I have about reached the conclusion that the only way we are going to stop this spending is to make it so that the Government can't get the money to spend by not letting them borrow the money. So if we can't borrow any more and if we can't tax any more, if a recession comes, what's going to be our situation? I'm not speaking of a war. God knows what would happen to us if we ever had to finance another war. I don't see how we possibly could preserve our system of government if we did. I mean just a simple ordinary recession such as two years ago. And that was regarded, as I said, as a time of great prosperity. This figure of \$12 billion was given to me by Colin F. Stam, Chief of Staff of the Joint Committee on Internal Revenue Taxation. I asked Mr. Humphrey whether that figure was correct. After consulting with his experts he said that it was. Thus, if we went back to the national income of just two years ago, we would have a deficit of \$12 billion.

The reason I have been so critical of the President's budget is because it is the highest peacetime budget in our history. It opened up new avenues of spending which, if once started, would not be stopped. I state this with all candor and frankness. Pass this budget as it now is and it

will be the lowest budget within the life of all of us.

Take, for example, the question of building the public schools. The President wants to do that. There is nothing that would be more costly to the Federal Government than to build schools for counties and localities. That's opening up a Pandora box, the extent of which can't even be contemplated. What would happen? The Federal Government would put up a luxurious school. They don't do anything in any other way, you know. It would have the finest of everything.

And then some other county will say, "All right, Uncle Sam has given this county a public school building, why shouldn't they give us a public school building?" And that's the way those things go. So on all down the line.

Mr. Eisenhower said that it would be limited to four years. With all respect to the President and with all deference, I just say that that simply will not be the case and I challenge anybody, including the President, to name a single one of these grants to the States that has ever been stopped.

When I came to the Senate we had one grant to the States: that was roads and we spent $250 million on it. Now we have 52 grants to the States and Mr. Eisenhower is asking for 13 grants more including the schools. This year we will spend $5.4 billion on those particular expenditures when 25 years ago we spent $250 million. Those things simply don't stop. Anyone who has been a Governor of a State, as I have, knows that when these grants are made by the Federal Government they are incorporated into the budgets of the States and it is practically impossible to get them stopped.

So this thing—this talk about doing it for a short time is against all experience. After all, the best way to judge the future is by what's happened in the past. None of them has been stopped and Mr. Eisenhower not only wants to give the money to schools but he has 12 others in addition to that; 12 other grants from the Federal Government to the States.

What happens to these Federal grants? People back home have a foolish idea that they are getting something for nothing. To the contrary, the money comes to Washington. We have no money here in Washington, everybody knows that. All the money we have comes from taxation. It comes to Washington and the departments and the different people, in wasteful processes down here, take a good part of it. Then they send your own money back to you and tell you how to spend it. That's what these Federal grants are to the States.

It's no saving to anybody. It's an actual increased cost to the people because it's the people in the counties and the cities and the states that pay the taxes. It's not the people in Washington. I think Federal grants have another great objection and that is the concentration of power in Washington.

Our Government is getting bigger and bigger all the time. It's getting so big that it's unwieldy. It's getting practically impossible for those in Congress and the Senate, even chairmen of important committees, to try to understand what's going on in all these different ramifications. Take the Finance Committee. This committee has raised all the taxes. We have to levy taxes to the extent that brings in seventy-odd billion dollars a year. This committee has charge of all the tariffs and customs and it has charge of all the social security and all the veterans' matters. That's enough work in itself for probably at least two committees. And the concentration of all these matters in Washington simply makes it more difficult to get economy or efficiency of management and more difficult to understand these things and how to correct them.

The only hope that I can see is: do what we are doing now. I don't

> *"We undoubtedly have what may be regarded as a great surface prosperity. You can take the statistics and show that this country is enjoying the greatest prosperity that it has ever known. No doubt about that. But, in my judgment, it's not sound or solid prosperity. When I came to the Senate 25 years ago we owed then $16 billion in Federal debt. Now we owe $275 billion. In addition, we have contingent liabilities, things our Government has guaranteed, such as the housing loans, to an extent of $250 billion more. I do not contend that all of that $250 billion is likely to become an actual liability which would have to be paid out of the Treasury. In addition to the Federal debt, we have a debt of the cities and counties and states of $50 billion. That has doubled in four years. In addition, we have a debt of corporations and individuals of five hundred and more billion. Thus we have a total of some $800 billion in public and private debt. The actual facts are that a total of all debts in the past four years has increased from $600 billion to $800 billion, an increase of one-third in that period of four years. That combined with the inflationary influences indicates to me that we are not on as solid a basis of prosperity as these statistics would give the impression that we are."*

expect all to understand all of it. I don't understand all of it and I have been in Congress for 25 years. A great deal goes on in Government that I don't understand. But at least I understand the fundamentals, namely, that what you spend you must pay. Other ponderables are: a great and overwhelming debt such as we have, which takes 10 per cent of the total tax revenue, is not a good thing; it's a bad thing.

The Federal, State and local governments are now taking from the people $110 billion in cash every year. And that's one-third of the total gross income of this country. I submit that this great free enterprise system of ours, which, after all is said and done, is the very basis of our democracy, is placed in jeopardy.

If we lose the free enterprise system we lose our democratic form of government because the free enterprise system is the system that furnishes the money to operate our Government. Whenever the time comes that the Government supports the people and not the people the Government then we have destroyed the form of government we have. We'll go to Russia; we'll go to some dictatorship because power always follows the purse. The free enterprise system has to have an incentive of profit. Businessmen are not going to invest money in something unless they think they are going to make a profit out of it. That's the way we built this country. If the taxes take too much of it then we say, what's the use. We just keep the money, bank it. We'll put it in some investment which is not promoting the development of the country. We can't go forward as a dynamic country and we can't stand still, that's certain. Every country like this has got to either go forward or go backward. We can't go forward unless we have a tax system which gives to the average investor a reasonable opportunity to make a profit. I am not speaking of the interest rates; I am speaking of this incentive of investments.

I made a statement a little while ago that we could reduce our budget back to the level of 1955; that's only two years ago. Mr. Eisenhower, however, has increased this budget, including the roads. Do not overlook that roads are not shown in the totals. I contend, since roads have been put in the trust fund and they were not in the trust fund last year, that for the purpose of comparison it's proper to include the road funds on this new road system. They increase Mr. Eisenhower's budget above 1955 by $8 billion.

We could take that $8 billion and first, pay something on the public debt, which should be done in any program of tax reduction. Then we would give a hundred dollars increase in the exemptions and, it's imperative, in my judgment, to give some relief to the middle bracket taxpayers; the taxpayers of eight and nine and ten and fifteen thousand dollar incomes. They are being severely punished now because the brackets are so close together. We could reduce the 91 per cent total maximum tax down to, say, 65 per cent or 63 per cent, somewhere along there. That would only lose $200 million.

The tax rate on corporations should be reduced, if possible, back to the level of the Korean War, which was 47 per cent. If not back to that, then certainly back to 50 per cent. There ought to be reductions in some of these terrifically high excise taxes and there should be something done for small business.

All of that could be done if we could bring the budget back to just two years ago. I have asked all the Government officials why is it? What has happened in the past two years to justify a budget $8 billion—an expenditure budget $8 billion more than it was two years ago? But I've never been able to get a satisfactory answer.

Of that $8 billion only $2 billion of it is in military and $6 billion is in what we call the domestic civilian, which has gone up more, more than strictly the military.

I have never known such a demand on the part of the people to reduce this public spending as has occurred this year. I've gotten thousands and thousands of letters, as have all the other Congressmen and Senators. The letter writers have left out this thing that they have been talking about in the past, "I am for economy, but"—as so many of them did write in the past.

This is a fight that has just begun. We have been on an improvident, wasteful, extravagant basis for 25 years. We have been adding to the debt for 25 years. We have been wasting money for 25 years. We can't expect to correct that in a short time, and I regret to say that had we the cooperation of the President, which we have not had (he suggested a few cuts but minor ones), Congress could have done a much better job than it has done. But it's most difficult to make cuts when the President says that this and that, if it's done, will be very harmful and be injurious to peace and so forth and so on.

We have got to have a preeminent defense. We have to have the greatest Navy in all the world. We have to have the greatest Air Force. We have to have the atomic bomb. But when anyone tells me that you can't save money in the national defense, I know that isn't correct. You can save substantial sums in the national defense. We are spending $40 billion a year and my proposal was to save $1.5 billion. Well, $1.5 billion is only 4 per cent. There isn't a single agency of this Government that couldn't cut 4 and 5 and even 10 per cent and still have just as effective results as if those cuts hadn't been made.

The fight has to be kept up if we are going to save this country, because this country can't stand another 25 years of what we have gone through in the past 25 years. It can't stand ten years. If we would lose two cents of the dollar in the next ten years, as we did in the past year, the dollar then would be worth only 25 cents of what it was in 1940. And then we would be getting into a situation where many of these foreign countries have destroyed themselves. There is nothing more destructive than an inflation that destroys one's own currency.

Whenever the American dollar goes down, the world goes down. The only thing that saves Communism from sweeping over the world is the strength of America, the strength at home, our financial strength, our mass production capacity. Eliminate or weaken these things and the whole world will go down to Communism, and the best thing we can do is to preserve the strength of America.

What Inflation Does t

INFLATION in the United States has been a wartime phenomenon. The record seems to show no significant inflation in time of peace. The record seems to suggest that if we succeed in preserving the peace we can reasonably expect—on the basis of historical precedent, at least—to maintain the purchasing power of our money. The proper adjective to apply to the history of inflation is certainly not "creeping." We have seen running, galloping, soaring, staggering but not creeping inflation. The typical pattern in the history of the United States is leaping wartime inflation followed, until the latest episode, by plunging deflation. The deflationary part of the historical pattern now appears to have been broken.

The period from 1896 to 1914 comes about as near to being a period of "creeping" and peacetime inflation as any. (I am not including the years immediately after the Second World War as a period of peace.) Yet the period before the First World War, which is sometimes described as "the Golden Age of the Gold Standard," is a period to which, so far as I know, the term inflation has never been applied. From 1897 to 1910 the average annual rise in the wholesale price index was approximately 3½ per cent. The rise in *each* year for 13 consecutive years was as great as in the *entire* five-year period from 1952 to 1956. The earlier period was not regarded as one of inflation! The current period has been filled with alarms about this so-called "creeping" inflation!

It comes as a surprise to most people to be told that the historical record of prices in this country discloses considerable stability. It is usual also to compare unlike periods, such as a period following some wartime inflationary experience with a period of depression which may have occurred a decade or so before. To be valid, price comparisons should be between like periods, a peak with a peak, for example, or a trough with a trough. On such a comparison the picture of a continually depreciating or indeed even a gradually depreciating monetary unit quickly disappears.

The explanation of the high degree of stability over long periods of time is to be found mainly in the progress of technology. A good example of the effect of technological advance is the common iron nail. Back in 1800, nails for building purposes were hammered out on an anvil, the old square-cut, wrought-iron nails. Today nails are made by squeezing them out, much as spaghetti is squeezed out. As a consequence, they sell for more nearly the price of spaghetti. This process of cheapening through technology is far from being at an end.

The story told by the record of wholesale prices from 1800 to 1940 is that in peacetime the cheapening effects of better technology were sufficient to give a very high degree of stability to the general level of commodity prices. The inference for the future is clear. Unless we are to suppose that the rate of inventiveness has slowed down or something else has come along to offset it, we should surely assume that the process of technological advance which has contributed so much to maintaining price stability in the past will continue to contribute to the prevention of inflation in the future.

There are many who would accept what I have stated so far but would feel that such evidence from the past has been invalidated by the rise of powerful labor unions. It is widely held that recurrent rounds of wage increases forced upon employers by the strength of trade unions are bound to drive the price level inexorably upward. The popularity of this argument explains the revival of the inflation scare every time a new series of wage contracts comes up for consideration. The historical record, however, fails to support the view that there is a direct relation between wage rates and the price level.

Average hourly earnings climbed rather steadily throughout the period from 1935 to 1956. Wholesale prices, on the other hand, rose during some of these years and in other years, as after early 1951, remained relatively stable. Much the same story is told by the index of consumer prices.

The most persuasive evidence, however, is afforded by a comparison of prices and wage rates in the United States from 1951 to 1956. Never was the strength of labor unions stronger than in this period. Seldom if ever in our peacetime history did hourly earnings rise as rapidly as in these six years. During most of the period, however, both wholesale prices and consumer prices remained remarkably stable in the face of this sharp and steady upward movement of wage rates. All this strongly argues that even in these days of powerful unions it is possible to combine rising wages and price stability.

Again the principal explanation of this most recent demonstration that wages can rise without a corresponding rise in prices is to be found in technological progress. The critical factor in price movements is not wages alone but wages in relation to productivity. This means productivity as influenced by every technological advance, including the automation about which we have heard so much in recent years. What the records show is that in 1920 the output per man-hour in the mining industry was over two and a half times that of 1880. Between 1880 and 1945 it was up over five times. In the last few years the process seems to have been accelerated even more. This fact of rising productivity is compatible with very substantial increases in wages without any necessary rise in commodity prices. Given reasonably secure conditions of peace, we must surely assume that there will be a continued rise in per capita output through the discovery of ever more

es to Life Insurance

INFLATION poses a threat to life insurance as it does for no other type of business. No other field has reason to seek more earnestly a sound financial system. As the principal purchaser of the mortgage loans which our industry originates, our own desires parallel those of the insurance business. Mr. Whittlesey's general opinions regarding the urgency of the inflation threat differ considerably from those of Dr. Nourse and Senator Byrd whose views preceded his in this symposium. He is not as concerned as they are; and if we should have to face it in the way they fear we might, he believes that insurance will not come out as badly as some suppose. That should not imply that he is complacent about the threat—he recognizes it for what it is, and thinks it ought to have a top spot on the agenda of our thinking.

By **CHARLES R. WHITTLESEY**
Professor of Finance and Economics
Wharton School of Finance and Commerce
University of Pennsylvania

ingenious methods of production.

To a very great extent the problem of inflation and its prevention is one of *timing.* Increased wages generate a "cost-push." Employers seek ways of offsetting the upward pressure on costs with a resulting tendency to turn to increased capital expenditures to provide more economical methods of production. The immediate effect of such outlays to improve per capita productivity is to add a further stimulus to the rise of prices because of the increased demand for plant and equipment. Such capital expenditures add to demand without, for the time being, adding to the available supply of finished goods in the market. The combination of upward pressure on costs and of increased demand creates a strong inflationary potential *for the time being.*

In this combination of inflationary and later deflationary potentials, the critical factor is the time element. It is the responsibility of the central bank and other stabilization authorities to facilitate such a timing of events that the inflationary forces will be held back until they meet the resistance of subsequent deflationary forces. The methods at the disposal of the monetary authorities for improving the timing of economic processes in the interests of greater stability include such policies as the current "tight money" policy exercised through general credit controls. They also include the so-called selective instruments of credit control. These and other stabilization techniques are essentially devices for regulating the rate at which the combination of inflationary and deflationary pressures exert themselves upon the general level of commodity prices. The authorities can, in fact, make a powerful contribution toward a successful solution of this problem of timing. The problem of escaping either undue inflation or serious depression is essentially one of *timing.* It is by no means beyond our ability to solve.

The life insurance industry has relatively little to fear from inflation so far as concerns their financial solvency. This is because of the fact that, by and large, liabilities and assets are both expressed in terms of the current monetary unit. If the monetary unit depreciates in purchasing power, the loss in the real value of assets is paralleled by corresponding decline in the real value of liabilities. A company could conceivably become virtually worthless through the deterioration in value of assets which were fixed in monetary terms. This came very near to happening during the period of German inflation after World War I. But such a company would not be bankrupted since claims, being expressed in the same monetary unit, would depreciate *pari passu* with assets.

The possible danger of losses on assets through default, though never large in well-run companies, would actually be less in a period of inflation than in other periods. This is partly because such periods are likely to be times of active business and partly because inflation would involve a lightening of the actual burden on those to whom the companies have lent money. For both reasons, the risk of default would be diminished.

The principal way in which the financial position of life insurance

THE LIFE INSURANCE INDUSTRY *has relatively little to fear from inflation so far as concerns financial solvency . . . the principal way in which the financial position of life insurance companies would be injured by inflation is through the resulting increases in cost of operation."—Mr. Whittlesey.*

companies would be injured by inflation is through the resulting increase in costs of operation. Even here, however, it is reasonable to believe that life insurance management would be able to adjust costs to the modest but continuing rise in prices of say 1 to 2 per cent a year which I associate in my mind with the expression "creeping inflation." Without seeming to condone "creeping inflation," therefore, I conclude that it constitutes no significant threat to the solvency of life insurance companies.

A different sort of effect of creeping inflation on life insurance would be the stimulation of interest in variable annuities such as the Teachers' Insurance and Annuity Association has already pioneered in this country with such notable success. This or some other technique for adjusting benefit payments upward in case of rising prices would be encouraged, as it has been encouraged in the period since World War II. It would undoubtedly call for greatly increased investment in common stocks and other equity securities, with corresponding burdens upon investment officers and administrative problems connected with the selection and training of personnel qualified to engage in this type of investing. In this process smaller companies would find themselves at some disadvantage, compared with the larger and more diversified companies. In addition, of course, many problems would be raised by the shift in emphasis on the part of life insurance companies away from their tradition of guaranteeing an absolutely assured fixed benefit. Since these problems relate only indirectly to the question of inflation, they cannot be explored at this point.

The most serious aspect of inflation, creeping or otherwise, lies in the frustration of well laid plans which it inevitably entails. It is the proud achievement of the life insurance industry to guarantee security. There is no foreseeable possibility that the life insurance industry will fail to meet the contractual obligations which it assumes. But this contractual obligation assumes, on the part of both buyer and seller of insurance, the delivery of values approximately equal to those existing at the time of entering into the contract. The one possibility that these expectations will not be realized lies in the threat of inflation.

The only significant obstacle to the achievement of the basic goals of the life insurance industry, then, is inflation. There is serious doubt in my mind whether the responsible life insurance executive could justifiably continue in business as at present in the face of a sincere belief that inflation, creeping or otherwise, was inevitable. It seems to me that it would be morally incumbent upon him to advise prospective buyers of insurance that beneficiaries could not expect to receive back values comparable with those indicated at the time of the purchase of insurance. It is true that part of the value of the monetary unit would be eroded away during the life of the contract so that premiums themselves would decline as compared with what was originally planned in terms of actual value. Nevertheless, beneficiaries would be receiving less than was originally contemplated and less also, by and large, than the values which they had surrendered.

A partial relief for this situation would be to reduce greatly the proportion of insurance sold which embodies a substantial savings element. Much greater emphasis would come to be placed upon term insurance. Resort to renewable term insurance would only imperfectly solve the problem. The rise in premiums at more advanced ages would increase the cost to the insured so greatly as to force abandonment of insurance, thus depriving individuals of protection in later years. Ordinary insurance would seem to be the only way of acquiring permanent insurance, but then the problem of frustration of expectations through inflation would again become acute.

Whatever was done by these means or otherwise to mitigate the seriousness of the damage, nothing could possibly eliminate it. Not the least of the casualties resulting from such a situation would be the loss of the commanding respect built up over generations which the public now rightly pays to the life insurance industry.

No type of business, so far as I can see, has a greater stake in the avoid-

ance of inflation than the insurance industry. The possible danger of inflation must constantly be kept before us to the end that we may more effectively combat and control that danger. At the same time, no one in this industry can afford for one moment to accept the thesis that inflation is inevitable, even a degree of inflation so moderate as to be called "creeping."

The remarks of President Ecker of the Metropolitan Life Insurance Company in his latest annual report bear careful pondering in this connection:

"Everyone agrees that inflation in the long run is bad for all segments of the population. The danger lies in the possibility that too many people may accept it as inevitable. If this should happen, an inflation psychology, mild in the beginning, might well take hold, gain momentum and, in the end, lead, as it always must, to collapse."

The assets and liabilities of fire and casualty insurance companies, unlike those of life companies, are not tied to the monetary unit in a fixed relationship. This fact makes possible a distortion in the balance between assets and liabilities such as cannot occur in the case of life companies. A disturbance of the relation of assets to liabilities would tend to result from the fact that creeping inflation would lead to a steady rise in the cost of indemnifying the insured. Fire losses, automobile repairs and the like would reflect the rising costs of replacement, materials and services. The protection afforded by deductible provisions would be reduced as higher and higher costs pushed more and more claims above the deductible minimum. (It would become necessary to raise the range of amounts which were allowed for as deductible.)

Internal costs of operation would tend to rise for similar reasons. It is by no means certain that the rise in costs could be offset by economies of operation including automation, electronic computers and other mechanical aids.

Companies would be plagued as they always have been in periods of rising prices by delays in getting rates adjusted upward to higher levels. While the authorized adjustment in rates might occasionally more than compensate for the rise in costs, such a situation, in the face of continuing inflation, would presumably be very temporary. It is reasonable to suppose, however, that with costs rising steadily ways would be found of adjusting charges with less delay than has been customary when creeping inflation was not the accepted order of things.

In some respects, the position of fire and casualty companies would be more favorable than that of life companies. Instead of a huge volume of assets tied up for long periods of time in terms of a fixed monetary unit, there is a constant flow of funds in and out which permits a fairly rapid turnover of assets. Because of their long established practice of investing a substantial proportion of assets in equity securities a tendency for assets to appreciate is to be expected. The German experience under extreme inflation was that ownership shares (common stocks) did not keep pace with the rise of other prices. There would undoubtedly be a greater tendency for them to do so, however, under creeping inflation.

Another possible offset might be a tendency for some reduction in claims to occur because the rise in value of assets would discourage such practices as the setting of fires to collect insurance. The stimulus to full employment and to a high, even hectic, level of business activity afforded by rising prices would presumably tend to operate in the same direction. One might expect that fewer claims would arise under liability coverage. Such considerations as these, of course, are highly conjectural and could easily be counterbalanced by other factors such as the rising cost of living and the sinister moral deterioration which we have learned to associate with conditions of inflation.

Fire and casualty companies are more favorably situated than life companies in that their contracts relate to a much shorter period of time. This fact facilitates the periodic revision of rates and makes it possible to eliminate unprofitable types of business more quickly. It also lies back of the fairly rapid turnover of assets. On the other hand, they are less favorably situated in that their ex-

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EVERYONE AGREES *that inflation in the long run is bad for all segments of the population. The danger lies in the possibility that too many people may accept it as inevitable. If this should happen, an inflation psychology, mild in the beginning, might well take hold, gain momentum and, in the end, lead, as it always does, to collapse."*
—President Frederic W. Ecker of Metropolitan Life Insurance Co.

We Are Not Alone

The entire free world has the same problem

WITH living costs on the climb and at new highs practically everywhere, the entire free world has awakened to the realization that it is at grips with another common enemy which is inherently destructive of social and economic values.

That is the growing threat of inflation, arising out of a combination of factors in one country after another in which excessive public and private spending and mounting evidence of a wage-price spiral are playing major roles.

Paralleling what is taking place in the United States, action is being taken by various countries abroad to contain the danger and to promote economic stability and sound growth. Top priority in all cases is being given to encouragement of individual savings as both a traditional inflation antidote and as a source of needed capital and investment funds to expand production. Increasing success of the savings drive is manifesting itself in big gains in life insurance ownership all over the free world, with many countries showing a bigger percentage growth in this respect than has been occurring in the United States in recent years.

Behind the free world's common concern with the inflationary danger is a fundamental change in public psychology that has taken place in the last decade. When World War II ended, the fear of a postwar depression was general and dominated the thinking and policies of practically all countries. Our own Employment Act of 1946 is a manifestation of this. Recent developments, however, have brought the universal recognition that the real current danger is inflation, and that the fight on deflation actually begins with the prevention of inflation.

A roundup of figures compiled by the United Nations shows the worldwide extent of the inflation problem. There are no data for the Communist world, but recent events have provided clear-cut signs of mounting economic strain behind the Iron Curtain also.

Since the end of 1955, for example, a period of little over a year, living costs have risen 2 per cent each in Germany and Switzerland; 3 per cent in Canada; and 4 per cent each in Belgium, the Netherlands, the United Kingdom, and the United States. Other countries show greater increases. The rise in living costs for the period was 41 per cent in the case of Chile, which along with some other South American countries has been experiencing a runaway inflation.

What is particularly significant and disturbing about the price rise in the United States and countries in Europe and elsewhere is that the new climb in living costs since the end of 1955 came after a relatively long period of stability. This provides decisive evidence of the underlying strength of inflationary pressures.

For the period from 1950 to date, the rise in living costs and consequent internal depreciation in the buying power of various currencies has been substantial. Living costs for this period have risen 13 per cent in the United States and Germany, for example; 15 per cent in Canada; and 38 per cent each in Japan, Sweden, and the United Kingdom. These are just random samples of the worldwide trend.

An analysis of reports from abroad shows a striking uniformity in the policies being adopted and action being taken in country after country to meet the inflation problem. In addition to the encouragement of personal savings in underdeveloped as well as the industrialized countries, the actions can be summarized as follows:

The first is the general employment of monetary and credit restraints, applied through higher central bank discount charges, rising interest rates, and in some countries consumer credit controls. In general, interest rates are higher in other countries than in the United States, and restraint measures are stricter also.

Second, there is a wide awareness of the inflationary impact of high

***INFLATION** in many countries of the world has already reached the stage which, for us, would be considered of panic dimensions. Mostly these are not the countries which suffered most from the effects of war. In many of them, desperate measures have been taken to douse the inflationary fires but usually the action has come too late to prevent the big damage.*

Government spending on economies that are at the practical limits of their manpower, financial and other resources. This is realized even in countries like the United States where budgets are in balance. As a result, the drive for more economy in Government is taking on worldwide dimensions. Since defense and military spending represents such a large part of Government budgets—the proportion is about 60 per cent in our own Federal Government—it is undergoing a more critical appraisal to eliminate waste and duplication.

Third, the fight on inflation and efforts to neutralize the forces responsible for rising living costs have brought increasing attention to the question of wage and production costs

Universal Problem

The following table gives the trend of living costs for selected countries in the free world from 1950 to date:

	Per Cent Increase	
Country	1950-56	Since 1955
Argentina	159%	16%
Australia	62	7
Austria	54	5
Belgium	14	4
Brazil	177	27
Canada	15	3
Chile	789	41
Denmark	30	6
France	34	1
Germany	13	2
India	4	10
Italy	29	5
Japan	38	6
Netherlands	19	4
Spain	21	11
Sweden	38	6
Switzerland	10	2
United Kingdom	38	4
United States	13	4

in relation to productivity. A recent study by the U. S. Department of Labor reports that over the past decade payments to labor in this country have risen twice as much as productivity in the non-farm, non-Governmental part of the economy. Reports from abroad indicate that wages have outrun productivity in other countries also.

INFLATION THREAT GREAT

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advantage as well as that of the country at large, labor should refrain from demands for excessive wage increases that would require price increases or would prevent price reductions that are necessary to sell the capacity output of the product."

Last January President Eisenhower spoke in like vein in his Economic Report:

"The full burden of avoiding price inflation, which is an ever present hazard in an expanding economy operating close to capacity, cannot be successfully carried by fiscal and monetary restraints alone. To place this burden on them would invite the risk of producing effects on the structure and functioning of our economy which might, in the years ahead, impair the vitality of competitive enterprise. And failure to accept the responsibilities inherent in a free economy could lead to demands that they be assumed by Government, with the increasing intervention and loss of freedom that such an approach inevitably entails. . . . Specifically business and labor leadership have the responsibility to reach agreements on wages and other labor benefits that are fair to the rest of the community as well as to those persons immediately involved. Negotiated wage increases and benefits should be consistent with productivity prospects and with the maintenance of a stable dollar. And businesses must recognize the broad public interest in the prices set on their products and services."

Some contend that inflation can in fact be curbed simply and swiftly by the Federal Government by merely "turning off the money faucet or reversing the money pump." In a certain restricted sense this claim is true. If the government dropped half a million or even 200,000 civilians and military and cut $8 or $10 billion from procurement and subsidies, the purchasing power thus withdrawn from the market would doubtless preclude further price rises. This would be equally true if the Federal Reserve sharply curtailed the money supply through credit channels. As a purely mechanical proposition, prices and wages would have to fall *or* volume of business would have to shrink. One can judge for himself in which direction our economic system has the most "give." Personally, I suggest that, with the built-in inflationary features we now have, we could curb inflation at the cost of a depression.

This is not a philosophy of despair. It is simply to say we cannot leave the solution of this problem to Washington and expect the President and Congress and the Federal Reserve to "do it with mirrors." It requires that we ourselves tackle the problem at its source in the voluntary wage-cost-price-investment-credit relations of the enterprise market.

There is an optimum balance among these factors which can be

James B. Shea New Head Arizona MBA

James B. Shea, vice president of The Valley National Bank of Phoenix, has been elected president of the Arizona MBA and George V. Brandt, Jr., assistant vice president, Southern Arizona Bank & Trust Company, Tucson, has been elected vice president. Elected secretary-treasurer was John W. Blundell, vice president of the Western American Mortgage Co., Phoenix. Robert Amrine, vice president, First Federal Savings and Loan Association, Phoenix, was elected director. Robert S. Vaughan, executive vice president, Lawyers Title of Phoenix, has been elected program chairman for the year. Shown above are Messrs. Vaughan, Shea, Blundell, and Amrine.

New Members in MBA

FLORIDA, *Miami:* Pan American Bank of Miami, James A. Adkisson, vice president.

GEORGIA, *Columbus:* Empire Home Loans, Inc., W. W. Shumny, president; A. Edward Smith.

INDIANA, *Indianapolis:* Harold K. Hall; *Valparaiso:* W. E. White Mortgage Co., Inc., W. E. White, president.

MINNESOTA, *Rochester:* Olmsted County Bank and Trust Co., E. D. Humke.

NEBRASKA, *Omaha:* The Center Bank, W. B. Hargleroad, Jr., president.

NEW YORK, *New York:* Eleford & Rutgers, Inc., John F. Eleford, president.

OHIO, *Cleveland:* First Mortgage Corporation of Cleveland, Karl W. Kuhn, president.

UTAH, *Salt Lake City:* Intermountain Building Credit, Inc., Alan E. Brockbank, president.

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attained or at least approximated if all the parties who make administrative and bargaining decisions will face their tasks in a scientific spirit, with primary concern for the well-being of the economy, and with mutual tolerance. We cannot hope for perfection in all these decisions or to answer the various questions in such ways that they stay answered in our dynamic world. But we should show ourselves capable of making continuously workable adjustments and a flexible system for making revisions as flaws or new needs reveal themselves in practice. We must avoid the rigidities of pressure-won formulas and stubborn insistence on doctrinaire interpretations of what any one party thinks he "ought" to get.

I have great optimism for the long-run future of our free economy in "the golden mid-sixties" we hear so much about. But the nineteen-fifties come first, and we shall have to curb inflation right now without precipitating serious recession or succumbing to government control if we are going to validate the claims we make for the free way of economic life. The question is: Have we all the intestinal fortitude to curb inflation and let the system work?

MBA Blanket Bond Coverage Broader

M. J. Mittenthal, Chairman of the MBA Insurance Committee, has announced a broadening of the errors and omissions coverage provided in the Mortgage Bankers Blanket Bond to include the insured's own mortgagee interest regardless of liability to others. The scope of the errors and omissions coverage has been increased several times since the Bond's inception. Last year it was extended without charge to include liability in connection with Homeowners policies or their equivalent, covering property in respect to which the insured is mortgagee or mortgage servicing agent. Inclusion of the insured's mortgagee interest has also been obtained without charge.

According to Mr. Mittenthal, the Committee is now considering the advisability of arranging, in conjunction with the Bond, blanket errors and omissions covering all lines of insurance. A questionnaire is being circulated to develop the necessary information and, to secure the best possible cross-section of opinion, the Committee will appreciate a heavy response by the membership.

INFLATION AND INSURANCE

(Continued from page 29)

posure at any particular time is much greater. They do not have cushions of comparable magnitude to the mortality cushion in life insurance. Premiums for fire and casualty insurance are on a more realistic basis relative to exposure than is the case in life insurance.

The insurance business, particularly the life insurance business, is a long-run undertaking. This is one of the reasons why fairly long-term perspectives on the problem of inflation are especially important.

In the period of the twenties, a great many people found convincing reasons for believing that they were in a New Economic Era free of business depressions. In the thirties an even larger number became persuaded that we had reached economic maturity and stagnation was our lot.

The current fatalistic belief in chronic inflation is of the same pattern of those earlier fallacies. The reasons for believing that inflation is inevitable are no more persuasive than the reasons behind those other views seemed at the time.

As condensed from an address before members of the International Insurance Conference at the University of Pennsylvania.

President's Page

OUR COMMITTEES AT WORK

LAST month in this page I described the MBA Committee as the "workhorse of our Association"—and I had in mind every one of the committees which have been hard at work this year on their individual assignments. I reviewed briefly what four of them had been doing; now I would like to comment briefly on what another group has accomplished.

The Conventional Loan Committee headed this year by H. Duff Vilm of Indianapolis, is one of our newer committees, which may seem strange when we consider that the conventional loan is the very backbone of our business. In the past we had, I suppose, taken it too much for granted; but today this is certainly not the case. The conventional loan represents a challenge for us these days and the Conventional Loan Committee has been meeting that challenge. Members are familiar, of course, with its work leading to the Standard Application form, an outstanding achievement in our quest for greater standardization of forms and procedures. What most members do not know is the enthusiastic reception which this form has had. Several hundred thousand already have been distributed and, most significantly, several life insurance companies have asked their correspondents to use it. More will do so, I confidently predict. Achievements of this kind are attained only after long and painstaking work. This form represents an important step in reaching a more complete standardization of operations which we all recognize as in the best interests of our industry. The Form was preceded by the Standard Financial Statement form which, in itself, was an accomplishment; and it has now been incorporated into the Standard Application form. Now the Committee is studying the feasibility of a Standard Appraisal Form.

John F. Austin, Jr.

The Educational Committee, headed this year by William H. Osler of Harrisburg, Pa., has been, for a number of years, one of the most important MBA groups and has had under its direction one of the show-pieces of our Association work, the educational program. This year our School of Mortgage Banking at Northwestern reached new highs in attendance and quality of the educational courses offered. It is unfortunate that the School of Mortgage Banking, which is assuredly one of the great achievements of our Association, is so little known to the membership as a whole. Comparatively few members have had an opportunity to see it in action, to evaluate its great benefits for our industry and to appreciate how importantly it is contributing to better mortgage banking in every way. Our Committee this year took what was already an established and successful institution and made important improvements, resulting in the best sessions we have offered at Northwestern. The Stanford sessions this month promise to be equally good.

Some of our MBA Committees do their work very quietly and thus often fail to secure the recognition they deserve. Two of them have been conspicuous this year in that respect, the companion—

Membership Committee headed by John A. Gilliland of Jacksonville, Fla., and the

Membership Admissions Committee headed by Jack D. Merriman of Kansas City, Mo.

Both have, in my opinion, performed magnificently and deserve the thanks of the membership. So far we have admitted something over 80 new members and there will be more before Convention time. But what is all important to recognize is that the emphasis has been strong on fully acceptable and qualified members. Our standards have been admittedly high. Our Membership Committee has been fully conscious at all times that members wanted to preserve the representative quality of the Association roster; thus they have been highly selective in their approval of applicants. Significantly, new members this year would have been fully 50 per cent greater had all applications been accepted.

Few members can appreciate the long, laborious effort that goes into screening of every application, the detailed information collected, the inquiries made and the work entailed in interpreting and analyzing every factor. But these two committees have done the job, week after week. Every member should be particularly grateful to them for their efforts.

J. F. Austin Jr.

PRESIDENT

I

Every year one impression of the School of Mortgage Banking at Northwestern stands out more prominently than any other: the mortgage industry will not want for capable talent to run it in the years to come. This year the impression probably was deeper because there were more talented young people there to create this forecast for tomorrow. Above, the freshman class at the School, those registered for Course I, largest on record. Next year begins the eleventh year of the MBA educational program at Northwestern.

II

Above, those for Course II; below, this year's graduating class, exactly 99. This is the second group to complete the full three years of instruction; and, come November, will be awarded completion certificates at the ceremonies during the MBA Convention in Dallas. More than 300 comprised the three classes; and seen together as here, one gets a good idea of just how important the School of Mortgage Banking has become as the source of competent personnel for tomorrow's business.

III

THE SCHOOL OF MORTGAGE BANKING

The 1957 Classes At Northwestern

On the tenth anniversary of its founding, the MBA educational program at Northwestern University in Chicago set a record high in attendance and achieved even greater stature as one of the principal educational programs offered by any industry in the country.

This year's School of Mortgage Banking at Northwestern, successor to the original Mortgage Banking Seminars established in 1948, offered all three courses necessary for earning a completion certificate. A total of 314 students attended the three courses, 127 in Course I, 88 in Course II and 99 in Course III. Thus, it is quickly apparent that the drop-out from Courses I to III is, so far, rather low, in fact probably shows a better average than in many colleges and universities. It is a credit to the School, its curriculum and administration and the high quality of its faculty that, at the beginning of these initial years of offering a full course, such a large number are taking the full three years of instruction.

Some of the other statistics about this year's School at Northwestern also tell a story. The number of companies represented by students in Course I was 105, 69 in Course II and 80 in Course III. Thus, the School is reaching all types of companies which make up this business of mortgage origination and investment. Geographically, the trend is the same—72 cities represented by students in Course I, 52 cities in Course II and 56 in Course III. Some of those who attended Course III this year at Northwestern had previously taken Courses I and II at Stanford. Going a bit further geographically, the data reflects even greater diversity. Twenty-eight states, the District of Columbia and Canada were represented in Course I, the same number plus the District of Columbia, Canada and Puerto Rico in Course II and 37 states and the District of Columbia, Canada and Puerto Rico in Course III.

As has been pointed out many times before, MBA's educational program including the School at Northwestern for the full three-year program and Courses I and II at Stanford, represents one of the really significant achievements of the Association during the present period.

At the get acquainted dinner preceding the opening of Course I, Dr. Homer V. Cherrington, now of Ohio University and active in the early development of the Seminars and School; Lewis O. Kerwood, MBA Director of Education and Research; William Osler, chairman of this year's Educational Committee; President John F. Austin, Jr.; and Dr. Harold W. Torgerson of Northwestern. Below, one of the special study groups in session during Course III.

Lewis O. Kerwood, MBA Director of Education and Research, and William H. Osler, MBA Educational Committee Chairman, greet three Pennsylvanians (seated) all with W. A. Clarke Mortgage Co.: Earl P. Herting, York; Thomas F. Perrone, Philadelphia; James M. Walsh, Pittsburgh.

A smiling quintet: James A. Justice, Glenn Justice Mortgage Co., Inc., Dallas; H. R. Moody, The Brooklyn Savings Bank, Brooklyn; Brian S. Odem, T. J. Bettes Company, Dallas; Dr. Harold W. Torgerson, Northwestern University; Dr. Homer V. Cherrington, Ohio University, Athens, Ohio.

John C. Hall, MBA Vice President; Mrs. Frank J. McCabe, Jr.; Walter C. Nelson, Eberhardt Company, Minneapolis; Frank J. McCabe, Jr., MBA Headquarters Office; Mitchell F. Blair, Security-First National Bank of Los Angeles, Los Angeles; John T. Nixon, Liberty National Life Insurance Co., Birmingham.

Above, Guy Williams, New York Life Insurance Company, Kansas City, Mo., converses with Donald McMullen, The City National Bank of Council Bluffs, Council Bluffs, Iowa; and two Chicagoans, Dean M. Olson, Chicago Mortgage Investment Company; Elmer C. Woehler, McElvain Mortgage Co.

Above, Perrin M. Law, Western Pennsylvania National Bank, McKeesport; Edgar A. Stoudt (third from right), Metropolitan Life Ins. Co., Philadelphia; with W. A. Clarke Mortgage Co. men: Ernest Metzler, Pittsburgh; Rene J. Fougeray, Philadelphia; L. Alan Zambone, Erie; James Conti, Harrisburg; Richard Eisenman, Williamsport. Below, being serenaded, Thomas J. Delaney, Clapp-Thomssen Co., St. Paul; Diego J. De Jesus, Dept. of the Treasury, Commonwealth of Puerto Rico; Harold W. Bjerg, James T. Barnes & Co., San Juan, P.R.

Above, a group of students at table during the Course I & II dinner and get acquainted meeting. Below, at the same dinner, E. T. Daisley, Jr., Don J. McMurray Co., Omaha; Jack D. Thellman and Suzanne H. Eaton, both of Kansas City, Mo., and also with the Don J. McMurray Co.; Marie Hulderson, Central National Bank & Trust Co. of Des Moines; Wanda Morgenstern, The Guardian Co., Little Rock, Ark.; Norma Pfeiffer, Dale W. Mitsch, New Albany, Ind.

MBA Vice President John C. Hall (third from left) chats with Al W. DesMarteau and John T. Hanlon both with The Kansas City Mortgage Company, Kansas City, Mo.; and Martin J. Lindloff, The Bowery Savings Bank, New York City.

Harry T. Gorman, Columbian Mutual Life Ins. Co.; James A. Drysdale, The Binghamton Savings Bank, both of Binghamton, N.Y.; Roland H. Kratzer, Jr., Amos G. Hewitt Mortgage Co., New Haven, Conn.; Douglas E. Tiffany, Security Mutual Life Ins. Co., Binghamton; E. Boyer Chrisman, Franklin Capital Corp., Newark.

That's Edward A. Ferguson, Utah Mortgage Loan Corporation, Logan (center); with four Californians: Gordon Longacre, T. J. Bettes Co., Los Angeles; Glenn L. Clemetson, The Mechanics Bank, Richmond; Earle J. Cottrell, Wells Fargo Bank, San Francisco; William J. Maxwell, Wells Fargo Bank, Redwood City.

Peter H. Ulrich, Citizens National Trust & Savings Bank of Riverside, Riverside, Calif.; Kirby D. Walker, Continental, Inc., Seattle; and Max B. Ostner, James E. McGehee & Company, Memphis; with George H. Patterson, MBA Secretary-Treasurer.

Della Diggs, Diggs Realty Mortgage & Ins. Co., Tucson; John M. MacDonald, Puget Sound Mutual Savings Bank, Seattle; Hugh H. Tebault, Duggan Investment Company, Alameda; Eleanor Lutz, General Mortgage Corp., Longview, Wash.; John F. Stone, Boyle Investment Co., Memphis. Below: C. M. Kurrus, Williams, Kurrus & Co., St. Louis; E. L. Groth, The Calumet National Bank of Hammond, Ind.; Dale W. Mitsch, New Albany, Ind.; D. L. Wilding, Commonwealth Life Ins. Co., Louisville; G. Thomas Hudson, The National City Bank of Evansville, Ind.

In photo above, that's Richard A. Griswold, City-Wide Mortgage Co., Kansas City, Mo.; Arnold A. Frederick, Lutheran Mutual Life Ins. Co., Waverly, Iowa; James R. Dezell, Southeastern Mortgage Co., Miami; Eldon G. Pritz, The Knutson Company, Minneapolis. And below, a group of Course II students as they prepare to board the buses for a field trip of Chicagoland shopping center, a regular feature of the School curriculum.

7 Wonderful Ways to See

MEXICO

After the MBA Dallas Convention

These Post Convention Tours are Timed to See Mexico at Its Best. November is always one of the best months to visit our south of the border neighbor. Summer rains have ceased. The air is clean and invigorating; and the countryside is lush and green. There's a tour here timed and sized just right for you . . . and right now is the right time for making your reservation. Make your reservations with our official travel representative: International Travel Service, Inc., Palmer House, 119 South State Street, Chicago 3, Illinois.

Mexico is one of the most colorful lands on earth. Picturesque places, such as the one on the left, and Calota, the morning beach in Acapulco, on the right. Below, left, one of the ancient pyramids of Mexico, a reminder of the ancient civilizations that flourished in the country. Right, something just about everyone will want to see—at least once—a bull-fight and you can in Mexico.

Choose from these Tours

TOUR 1—WEEKEND IN MEXICO CITY

A grand opportunity to see all the sights in this most cosmopolitan of cities. The city itself: Central Square, Government Palace, Cathedral of Mexico, Chapultepec Park and Castle, colorful street markets, Palace of Fine Arts, the Floating Gardens of Xochimilco, and the bull fights. And in the country: Shrine of the Virgin of Guadalupe, Pyramids of Teotihuacan, Monastery of Acolman.

TOUR 2—10 DAYS IN MEXICO

This tour is ideal because it offers so much for so short a time. You see and do everything in Mexico City that you would see and do in Tour 1, but instead of returning home right away you travel on to such renowned places as Acapulco, Taxco, and Cuernavaca. Acapulco is truly called the Riviera of North America . . . gleaming beaches . . . shimmering surf . . . inviting fishing . . . altogether relaxing. Taxco is the world's City of Silver. Cuernavaca is a fashionable resort once favored by Cortes and Maximilian.

TOUR 3—11 DAYS IN MEXICO

This tour is arranged for those who would like to spend "one more day" over the ten days provided in Tour 2. This one-day-more is worthwhile. It takes you on a delightful motor trip out of Mexico City to fascinating San Jose de Purua, where you lunch and enjoy famous baths, swimming pools, and semi-tropical gardens.

TOUR 4—18 DAYS IN MEXICO

On this tour you really see and do things in Mexico. After weekending in Mexico City, you embark upon one of the most delightful motor excursions you have ever enjoyed. First to the Gulf port of Vera Cruz. On to Fortin de las Flores, Orizaba, Puebla, Cholula, Amecameca and Cuautla. From this point on you visit beautiful Cuernavaca, Acapulco and Taxco. Then you go to Ixtapan and Toluca and to San Jose de Purua.

TOUR 5—18 DAYS IN MEXICO

Here too is a specially arranged motor tour deep into Mexico, and just a bit more extensive. After weekending in Mexico City you drive directly to Cuernavaca and to Spa Ixtapan de la Sal, Morelia, Patzcuaro, including motor launch to Island of Janitzio, followed by Guadalajara, Guanajuato, San Miguel Allende, and San Jose de Purua. Then fabulous Taxco and Acapulco, and return to Mexico City. This tour, more than any of the others, provides a delightful balance of rural and urban attractions.

TOUR 6—GUATEMALA & YUCATAN

You have some time in Mexico City and then fly directly to Guatemala City. You will visit ancient Antigua, former Indian capital, famous for handwrought silver. Lake Atitlan, 5,000 feet above sea level, overlooked by three volcanoes, is a scene you will enjoy by motor launch. And of course you will have a day at THE spot in Guatemala—Chichicastenango! The Yucatan portion of this tour features that part of Mexico which is different from all the rest of the land. You visit its capital Merida, see the wonders of the archeological world at Chichen-itza, with further sights at Uxmal.

TOUR 7—GUATEMALA

Here is an opportunity to spend 11 days among friendly, quiet-spoken, well educated, proud and patriotic people, who will welcome your stay in their charming native land. This is a tour for you who prefer atmosphere to gay life . . . relaxation to modern tension . . . exploration to time-worn routes. On this tour you touch Mexico but twice . . . you arrive at Mexico City in the beginning and return there for home at the end. The rest of your travel takes you completely into fascinating Guatemala and its famous places of Guatemala City, Antigua, Pastores, Chimaltenango, Lake Atitlan, San Antonio Palopo, and Chichicastenango.

OAXACA EXTENSION

If you have missed seeing Oaxaca on previous trips, or want to visit there on this post-convention opportunity, an extension trip can be added to any of the tours presented here. It takes only three days and is worthwhile in every respect. Oaxaca is a very old city located in a lovely valley near jungle and mountains. Hunting is excellent. Souvenir hunting equally so . . . serapes, black glazed pottery, woven straw materials, obsidian and jade objects are outstanding. Here is something "different" to do.

Coming . . . Something New
MBA's First

ELECTRONIC AND TABULATING EQUIPMENT SERVICING CLINIC

Hotel Commodore, New York - September 23-26

Plan Now to Attend

What It Is And How You Can Profit

Is your firm a small, medium or large mortgage company? Are you currently using tabulating equipment, contemplate its use, or now have no plans to install such equipment?

Are you with a commercial bank, savings bank or life insurance company?

Regardless of your position in the mortgage banking field, the Electronic and Tabulating Equipment Servicing Clinic has important profit possibilities for you and your company.

This four-day Servicing meeting is being offered to include two simultaneous four-day Clinics.

>> One complete program is designed for those companies already operating with electronic or tabulating equipment. This will include separate sessions on such subjects as Cashier Department Operations and Tabulating Reports, Escrow Disbursements and Analyses, Operating Reports and Special Production and Accounting Procedures.

>> The second and concurrent program for beginners, or those not yet utilizing this type of equipment, will feature separate sessions such as Fundamental Requirements for Machine Data Processing, Punched Card Systems and Procedures for Mortgage Loan Accounting, Installation and Transition Problems and Costs, and Complete Discussions on the Cardatype and Service Bureau Operations.

While many smaller companies at present are not interested in electronic or tabulating servicing equipment and procedures, there will be presented and explained brand new electronic machines that have recently been designed and developed for small companies. Within the next few years, all companies, regardless of size, will be operating with some sort of electronic equipment.

For the first time in any MBA program, separate sessions have been arranged solely for investors. These sessions will deal with home office problems and procedures and will be conducted by investor experts. These meetings will enable the investors to get together to exchange ideas resulting in benefits to all home office operations.

The over-all format for both the advanced and beginners sessions will be that of the roundtable or seminar meeting. Thus, all groups will be small enough to allow adequate discussion and comments from all attending. Likewise, for the first time at any MBA affair, actual equipment will be in operation at these sessions and all necessary supplies and forms will be available.

In addition to the more than 30 speakers from our own industry, there will be representatives from International Business Machines Corporation and Remington Rand appearing on the program. Two luncheons, on the first and last days of the Clinic, will also be held.

Finally, one of the unique features of the Clinic will be a meeting of both investors and correspondents to study the possibility of developing an integrated investor-correspondent servicing system. This feature might well prove to be most profitable for our entire industry in that such a system would relieve both correspondent and investor of much work now being performed by both and thus result in a simplified servicing program for all. The last day's program will also include special sessions dealing with Home Improvement Operations and General Insurance.

This New York Clinic will be of greatest interest to every MBA member firm. All future improvements in servicing procedures might well stem from this Clinic. Consequently, plan now to come to New York in September with several of your key people. When compared to other industries, the amount expended by our members each year for research is insignificant. This Clinic, in effect, will be the best opportunity presented to you to realize the most from a few dollars spent on research in attending the meeting.

The printed program and registration card will be mailed to you soon.

A LOOK AT THE NEW LOOK IN SOME MORTGAGE OFFICES

About any place you go, some mortgage company is expanding its space

EXPANSION of the mortgage industry during the past two decades continues to catch up with firms all over the country, resulting in acutely crowded office quarters. This in turn has caused many companies to seek new and enlarged space and in many instances to construct their own buildings. One trend has been the desire of many mortgage companies to get into ground floor locations—a trend which also has been pronounced in the operations of some of their competitors. Except in the very large metropolitan centers, mortgage companies constructing their own buildings have laid heavy emphasis on parking facilities and for some of them there has been a pronounced trend toward decentralization, that is, moving away from the central core areas of the cities to less crowded sections.

In Cleveland, Jay F. Zook Company has moved into the new Zook Building, fronting 86 feet on busy Euclid Avenue. The building has 20,000 square feet, central air conditioning and built in the modern manner with turquoise porcelain-on-glass panels and aluminum mullions. The Zook firm is occupying the third floor, with nationally known tenants taking the first and second floor space.

Among the unusual features in the building are a penthouse apartment on the roof for the caretaker and a complete kitchen with lounge facilities in the basement for employees.

In 1955, Zook completed a major step in its expansion with the purchase of Allied Mortgages, which is operated as a subsidiary. This rapid expansion created a major housekeeping problem and necessitated the new offices. For some months, the firm was forced to operate from two sets of offices, with production concentrated in the Union Commerce Building, servicing in the National City East Sixth Building. The efficient, compact new offices will make day-to-day work schedules easier.

The Zook firm employs 50 people, services more than $100,000,000 in loans with an annual production between twenty and thirty million dollars. It represents 13 major life companies and 13 large Eastern savings banks.

The experience of Finance Corporation of Tulsa parallels that of many other firms over the country where, because of sharply increased volume, it had to take drastic steps to house its operation in adequate quarters. It bought a lot on the fringe of the downtown business district and constructed its own building. Modernistic in design, the building is 62 by 126 on a plot with a frontage of 170 feet and 140 feet deep. The operation includes an off-street, paved parking area of about 16,000 square feet, which the firm has found is a most important asset both for customers and employes. The firm has emulated the trend noticeable in the banking world during the past ten years and provided for a drive-in window for customers' convenience. The building is two stories and basement, completely air conditioned, with fluorescent lighting and acoustical ceilings. The firm has even installed a music system throughout the building.

On the first floor is located the Loan Servicing Section, Cashier's Section, PBX Operator and Receptionist, Accounting Section and its affiliated operations. Accounting, with its bookkeeping machines, is entirely enclosed to give privacy and confine the noise. Open shelf filing is located convenient to all sections. On the first floor is also located a large conference room, coffee shop and rest rooms.

The Processing and Closing Sections are on the second floor. It was felt that customers like some privacy when making application for the financing of their homes, thus arrangements were made for private offices for loan officers.

Another new building is that of Tucker & Branham, Inc. in Orlando on East Central Avenue in that City, overlooking Lake Eola and Eola Park. The building has an area of 10,000 square feet and this firm occupies the ground floor, with the second floor leased to tenants.

The offices of California Bank's real estate loan department, occupying the second floor of the bank's Head Office in Los Angeles, have been completely remodeled. Shown, next page, is the loan application section with the executive section against the windows at the far end of the room.


Above, the new Zook Building in Cleveland and a view of a section of the interior.


Above, the new building of the Finance Corporation of Tulsa and an interior view.

Below, new building of Tucker & Branham, Orlando; below, California Bank interior.


Donald M. Alstrup, formerly with Richards and Alstrup, Inc., has joined The Jordan Mortgage Company of Denver as vice president and director.

Harry V. Cameron, president of the Arizona Land Title & Trust Co., of Tucson, has been appointed president of Lawyers Title of Phoenix, a newly organized title company and the fourth in that city. The new firm will issue policies of the Lawyers Title Insurance Corp. of Richmond, Virginia. Mr. Cameron, who has been in the title business in Arizona for the past 12 years, recently resigned as president and director of Lane Title & Trust Co., Phoenix.

Robert S. Vaughan, until recently vice president in charge of public relations for Lane Title, is the executive officer in charge of the new Phoenix firm.

Arthur G. Lee has been named a vice president and **Arthur E. Anderson** and **Harold F. Sullivan** have been named assistant vice presidents of Crocker-Anglo National Bank in San Francisco. Lee and Sullivan are members of the Northern California MBA and have been in the real estate loan department of Crocker-Anglo. **Henry R. Ehlers,** vice president of the Bank, is one of the assistant managers of the one Montgomery Street office of Crocker-Anglo. He is a past president and director of the Northern California MBA.

Another kind of school of mortgage banking is held each year at the University of Illinois, where a short course for mortgage lenders on the processes and construction techniques of home building is offered by the Small Homes Council and Division of University Extension. This is the fourth year it has been offered.

Forty-four registrants from 16 states heard lectures on various phases of construction, and participated in field trips to research homes and jobs under construction.

Above, a group of registrants—all members of MBA, listen as Donald H. Percival (right), research assistant, pointed out the intricacies of roof truss construction. Left to right, Kenneth H. Backes, Buffalo Savings Bank; Ronald Batterham, Johnson Mortgage Company, Decatur, Ill.; Rodney A. Beck, James H. Pence Company, Louisville; Joel Bullard, Charles E. Bullard Co., Inc., South Bend, Ind.; and Roy E. Coleman of the Albright Title & Trust Co., Newkirk, Okla.

Registration at the short course was limited to facilitate instruction.

Another group of mortgage bankers heard Hyman A. Steinberg (above, right), assistant professor of architecture, explain tests on 1½-story trusses at the Small Homes Council's research ground. Left to right, Harvey A. Klodt, chief inspector, Buffalo Savings Bank; John P. McCarthy, construction inspector, Dovenmuehle, Inc., Chicago; Mrs. Zelpha Mitsch, co-owner of Dale W. Mitsch Mortgage Banker, New Albany, Ind.; George R. Peterson, vice president, First Mortgage Investment Co., Kansas City, Mo.; Michael A. Schneider, president, The Home Loan & Securities Corp., Cleveland; and Anthony Sirtaut, manager, real estate department, National Bank of Austin, Chicago.

A nail-glued roof truss undergoing a concrete-block load test is examined by another group of mortgage bankers attending the Course.

Above, Dr. John I. Zerbe, research assistant professor, points out strength of truss members to Dean Dunn (left to right, standing) of Worcester (Mass.) Five Cents Savings Bank; Howard L. Gay, assistant vice president, Citizens Commercial & Savings Bank of Flint, Mich.; Don A. Hiller, treasurer, Ray P. Hiller Company, Milwaukee; Robert Keith, assistant treasurer, Schenectady Savings Bank; and John Kleinke, senior appraiser, Talman Federal Savings and Loan Association, Chicago.

Minnesota Title Expands Into Canada

As we announce our expansion into Canada, we pay tribute to our bustling neighbor to the North. Seldom has any area experienced the dynamic growth now underway throughout the Dominion. Toronto's position as the fastest-growing city in North America is but one example of the progress taking place.

Our expansion into Canada permits us to serve this flourishing economy. We welcome the opportunity to participate in Canada's bright future.

We will have facilities to provide on-the-spot title service for mortgage lenders and mortgage makers from both sides of the border. For information about title insurance on Canadian property write our office at 320 Bay Street, Toronto, Ontario. Or contact our Minneapolis office.

TITLE INSURANCE COMPANY OF MINNESOTA

125 South Fifth Street Minneapolis 2, Minnesota
FEderal 8-8733

Capital, Surplus and Reserves in Excess of $4,000,000.

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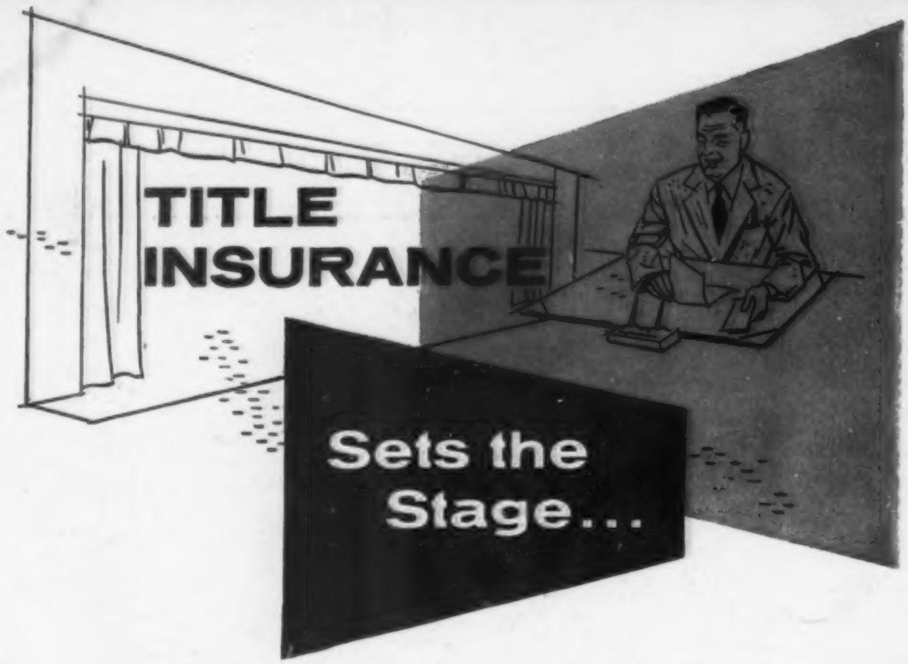
SOUTH CAROLINA SOUTH DAKOTA TENNESSEE
UTAH WEST VIRGINIA WISCONSIN WYOMING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